



PARLIAMENT OF NEW SOUTH WALES

Report of the
PUBLIC BODIES REVIEW COMMITTEE

**REPORT ON ACCOUNTABILITY
FOR UNFORESEEN PERFORMANCE
OUTCOMES AND USE OF
BUDGET SUPPLEMENTATIONS**

November 2002

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Functions Of The Committee

To examine the annual reports of all public bodies and to enquire into and report on:

- a. the adequacy and accuracy of all financial and operational information;
- b. any matter arising from the annual report concerning the efficient and effective achievement of the agency's objectives;
- c. any other matter referred to it by a minister or the Legislative Assembly.

Terms of Reference of the Inquiry

The Terms of Reference for the Inquiry cover a number of specific matters including:

- (a) whether New South Wales public sector agencies adequately account for all significant unforeseen outcomes of their operational and financial activities in their annual reports as well as through other means of public disclosure (where applicable);
- (b) whether the use of different kinds of Budget Supplementations is adequately accounted for in agencies' own annual reports and also through other forms of government reporting; and
- (c) how the accountability issues referred to in (a) and (b) are dealt with by public sector agencies in other Australian jurisdictions.

Committee Membership

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GLOSSARY

Accrual accounting	The system of accounting in which items are brought to account as they are earned or incurred (and not as money is received or paid) and included in the financial statements for the accounting periods to which they relate (Australian Accounting Standard No. 6).
Annual appropriation	The process by which Parliament authorises the use of money by the government for public purposes. Annual appropriations require the passage of legislation by parliament each year.
Annual Financial Statements	Comprises statement of financial performance, statement of financial position and statement of cash flow for a given financial year.
Benchmarking	A process of systematically measuring and comparing the products, services and processes of an organisation – internally and against other relevant organisations – and adopting the most efficient, effective or economical practices.
Budget sector	Comprises agencies within the general government sector each of which obtains 50 percent or more of funding through Parliamentary appropriations and is directly accountable, through a Minister, to Parliament.
Corporate governance	The processes by which agencies are directed and controlled. It encompasses authority, accountability, stewardship, leadership, direction and control.
Corporate objectives	The objectives of an agency are usually included in its corporate plan and they set out the goals to which the agency is working. All agency activities should be designed to support the achievement of corporate objectives.
Corporate plan	The operational plan for an agency which sets in place the specific strategies and action plans for the agency to achieve its overall corporate objectives and targets.
Key Performance Indicators	Key Performance Indicators are key measures of performance for an agency or business units within an agency. They are indicators of the critical success factors for the agency.

Key Result Areas	The areas of interest that are intentionally affected by the activities of departments and agencies. For example, drug abuse, crime rate, environmental management, conservation, economic growth, occupational or public health.
Outcomes	The government's intended impact on the community as a result of the funding of services. Outcomes establish both the rationale and foundation for the State Budget.
Outputs	The services and products which are directly or indirectly produced by an agency and delivered to external users. Agencies are held accountable for the provision of outputs against a range of pre-determined performance indicators.
Specific Purpose Payments	Grants made by the Commonwealth to State and Territory governments subject to terms and conditions specified by the Commonwealth, generally to ensure that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met.

EXECUTIVE SUMMARY

Chapter 1 : Introduction

Public accountability for performance outcomes is essential to the efficient and effective operation of government agencies in the New South Wales Public Sector. The annual reports of these agencies are the key communication medium by which they discharge their accountability obligations to the Parliament, the Government and the general community.

This report is concerned with the issue of holding individual agencies accountable for their operational and financial performance and doing so in a meaningful, reliable and consistent way across the public sector. The Committee's view is that credible and balanced reporting on performance has a number of clear benefits as it can:

- enhance accountability and trust in government;
- provide information to promote improved services and better parliamentary scrutiny; and
- create an incentive for agencies to actively manage for the results they have set out to achieve.

Openness and transparency in reporting has now assumed even greater importance in the light of the greater responsibilities that have been devolved to agencies over recent years and the increasing focus on the issue of good corporate governance in the public sector.

The Committee's past reviews of agencies' annual reports have shown that there is a general reluctance to report on "bad news" about performance and also on the use of budget supplementations to cover funding shortfalls. The common tendency is to avoid discussing the "hard and difficult" issues faced by an agency because they may reflect adversely on its performance or are controversial in nature.

A major deficiency of the current performance reporting framework in New South Wales is that there are no explicit legislative requirements for agencies to include in their annual reports a comprehensive range of disclosures that are consistent with the "best practice" standards that have been adopted by other governments (both locally and overseas).

In the absence of a legislative imperative to do so, there are few incentives for agencies to strive for excellence in performance reporting that is focussed on presenting comprehensive and balanced information on performance outcomes. In fact, annual reports are perceived by some Boards of Statutory Bodies and Chief Executive Officers as more in the nature of compliance and public relations documents rather than instruments of accountability.

The Committee has noted that the Commonwealth and a number of other States (e.g. Victoria and South Australia) have now adopted a far more robust and comprehensive performance reporting framework than the one currently in existence in New South Wales.

There were two key elements to the Committee's Inquiry. The first element focussed on how adequately agencies reported on performance outcomes that had not been forecasted in the Strategic and Corporate Plans. The second element was primarily concerned with how agencies and the government reported on the use of budget supplementations.

The main aim that was set out for the Inquiry was to develop a set of proposals to strengthen the legislative framework for the reporting of performance and use of budget supplementations; to revamp agencies' internal processes for the production of annual reports and communication with stakeholders; to improve the quality of policy leadership, guidance and support provided to agencies by Treasury; and to enhance the arrangements for the external scrutiny of agencies' reporting.

Chapter 2 : Reporting of Unforeseen Performance Outcomes – The New South Wales Approach

The New South Wales Public Sector annual reporting requirements are set out in the *Annual Reports (Statutory Bodies) Act 1984*, *Annual Reports (Departments) Act 1985* and the associated Regulations. The current legislation was enacted in the mid 1980's.

Despite previous recommendations by the Committee and the Public Accounts Committee, the existing annual reporting legislation still has not been updated to reflect changes to the accountability requirements and reporting standards that have been brought about by the recent public sector reforms. The Committee is concerned that the present reporting framework is too general in its prescription and it lacks a clear focus on the key issues that are relevant to a proper assessment of performance and accountability.

During the Inquiry, the Committee examined a sample of agencies' annual reports for the 2000-2001 year. The review identified a number of common deficiencies in performance reporting (particularly the reporting of unforeseen performance outcomes and non-achievement of plans and targets).

Given the defects in the legislation, the Committee has found that a large number of agencies have chosen not to include in their annual reports explanations on:

- the reasons for the major variances from performance plans and targets; and
- actions taken to address performance shortfalls and to improve service standards.

Overall, agencies have made some improvement in reporting on their performance in recent years but the Committee is disappointed at the rate of progress. Four factors stand out as contributing to the current state of reporting:

- The existing legislative framework does not prescribe the key elements that are essential for effective performance reporting.
- Principles of good reporting are not clearly understood or applied by agencies.
- Apart from some exceptions, generally there is an absence of a spirit of open accountability for outcomes and an organisational philosophy and culture founded on the use of comprehensive performance information for the monitoring of progress towards achievement of goals.
- Performance reporting has “political” dimensions.
- There are few incentives for good reporting or sanctions for poor reporting.

The Report has recommended a complete revamp of the existing legislative framework to incorporate a wide range of disclosures for performance reporting that are consistent with “best practice” standards.

Chapter 3 : Review of Agencies’ Annual Reports

As part of the Inquiry, the Committee selected for detailed examination a sample of fifteen agencies’ annual reports for the 2000-2001 year. The focus of the review was on performance reporting and, in particular, on how agencies reported on what they planned to achieve and what they had in fact achieved (including explanations for under and over-performance). A large number of common deficiencies were identified and they are detailed in Chapter 2.

The Committee also reviewed the annual reports of four agencies for the 1999-2000 year to see specifically how performance issues (i.e. problems and setbacks) that had previously been raised in the public arena were dealt with in the reports. The results of the review were mixed. Some agencies did provide a commentary on the reported issues whilst others made little or no reference in the reports to the problems and setbacks that had previously been publicly canvassed in the press or media.

There are pockets of good performance reporting and a number of strengths in the present reporting regime. Among the 2000-2001 annual reports reviewed by the Committee, it was found that the reports of Integral Energy and the Environment Protection Authority both have a number of positive features. In the Committee’s view, these two agencies have made a commendable effort in explaining their performance outcomes in a clear and understandable way.

The results of the Committee’s review of annual reports have provided a useful basis for formulating the recommended legislative changes as outlined in Chapter 2.

During the course of the Inquiry, the Committee also undertook a case study of the performance reporting process of Integral Energy and it found a number of

aspects that could be of interest to other agencies. Integral Energy's approach to performance reporting is a clear demonstration of top management's commitment to good corporate governance and a culture of transparency and openness.

Chapter 4 : Reporting of Unforeseen Performance Outcomes – Practices in Other Jurisdictions and in the Private Sector

Under one of the terms of reference, the Committee examined the performance reporting practices of government agencies in the other Australian jurisdictions and also in a number of major overseas countries. As part of the benchmarking analysis, the Committee also undertook a review of the statutory and other reporting requirements of large companies in the Australian private sector.

The key purpose of the extensive review was to identify specific areas that could be further improved within the existing New South Wales performance reporting framework in the light of recent developments in both the public and private sectors.

The Committee found that most of the other Australian jurisdictions have an explicit requirement (legislative or policy) for agencies to report actual results achieved against the key performance targets shown in the plans and budget papers (with a particular emphasis on outcomes). Some jurisdictions have also prescribed the inclusion in the annual reports of trend data, a discussion and analysis on performance and reasons for any significant variation between planned and actual performance (together with details of action taken to address performance shortfalls).

A common problem which still exists (in varying degrees) across all Australian jurisdictions is the tendency for agencies to adopt a public relations or promotional approach in preparing their annual reports with the result that the emphasis is often slanted towards the presentation of "good" news.

The review of government performance reporting practices in other major overseas countries identified a number of interesting trends. In the United States, Canada and the United Kingdom, there is a requirement to produce strategic plans, performance plans and annual reports as part of the accountability cycle. All these documents are subject to annual scrutiny by the Parliament or Congress. Ex-post performance reporting is required to be linked to the targets set out in the plans.

The Committee has also found that a number of institutional arrangements have been established in the other major countries to enhance the quality of performance reporting. For example, the performance information published by agencies in the United States, Canada and New Zealand are subject to audit by the respective Audit Offices. (There is a similar auditing requirement in some of the other Australian jurisdictions).

In the case of the private sector, the Committee has noted that listed companies:

- are subject to more frequent reporting during the year than public sector agencies;
- tend to make more extensive use of technology to communicate with their stakeholders (e.g. websites and other electronic means);
- have special in-house arrangements for communication with investors (including the appointment of an investor relations manager); and
- are subject to more stringent regulatory oversight by the Australian Securities and Investments Commission and the Australian Stock Exchange as well as regular scrutiny by other industry “watchdog” bodies acting in the interest of shareholders (e.g. the Australian Shareholders’ Association).

Chapter 5 : Reporting on Use of Budget Supplementations

Budget Dependent General Government Sector Agencies (e.g. departments) are allocated a specific sum of money each year to fund their operations under the Annual Appropriation Act as part of the State Budget process. After the enactment of the Annual Appropriation Bill, the Government may draw additional money out of the Consolidated Fund using different mechanisms (without prior Parliamentary approval) to fund expenditures not anticipated at the time of the State Budget.

The focus of the Inquiry was not so much on why the additional funding requests were made by agencies and whether they were justified. Rather, the Committee was more concerned to establish whether the subsequent reporting on the use of budget supplementations, both at the agency and whole-of-government level, was adequate in terms of the explanations provided for the extra funding required. The Committee strongly believes that it is important for the budget supplementations to be subject to the same degree of accountability and Parliamentary scrutiny as the original Annual Appropriations (albeit on an ex-post basis).

The Committee has found that the common reasons for the use of budget supplementations are:

- new policy initiatives, projects and activities;
- unforeseen cost increases e.g. unanticipated increase in demand for services and increases in expenses such as award increases in salaries and wages;
- non-realisation of planned savings;
- revenue shortfalls; and
- unforeseen capital projects and purchases.

Budget Dependent General Government Sector Agencies are required to include a “Summary of Compliance with Financial Directives” in the annual financial statements which form part of the annual report. A review of a sample of Summaries for the 1999-2000 and 2000-2001 years prepared by agencies

showed that none of the Summaries had provided any explanations for the use of budget supplementations.

The current unsatisfactory state of reporting by agencies on the use of budget supplementations can be attributed to a deficiency in the Financial Reporting Code issued by Treasury. The Code only requires an explanation to be provided where there is a material variance between total budget funding available and actual expenditure but not between the original Annual Appropriations and the final amount of budget funding approved (including supplementations). The Committee's view is that explanations for both types of variances are essential if the use of funding resources by agencies is to be properly accounted for.

From the sample of Summaries reviewed, the Committee also noted that, in a few instances, there was a reasonably material variance between the original Annual Appropriation and actual expenditure but the reasons for the variance had not been provided in the financial statements. The failure to provide the necessary explanations is a breach of the Financial Reporting Code and accounting standards.

As for whole-of-government reporting, the Committee was concerned to find that most of the explanations for the use of budget supplementations provided in the subsequent appropriation bills and in the documents tabled in Parliament during the year are not adequate. As a result, it would be difficult for members of Parliament and other stakeholders of agencies to effectively assess whether the additional funding used was justified.

Whole-of-government reporting is done progressively during the year, in a piecemeal fashion, by the Treasurer. The Committee can see a problem with this approach as an aggregate picture is not presented covering all the supplementations provided to agencies for the whole financial year.

The Report has recommended that the deficiency of the Financial Reporting Code be rectified and that an overview report on the use of budget supplementations by agencies be included in the annual Consolidated Financial Report of the NSW Total State Sector.

Chapter 6 : Performance Reporting – The Way Forward

The Inquiry into performance reporting within the NSW Public Sector has identified a number of major legislative, policy, organisational and institutional issues which have impeded the production of a good report by a majority of agencies.

To assist agencies in moving to the "best practice" position over time, the Committee has recommended in the Report the adoption by the Government of a comprehensive Strategy with the following key elements:

- A complete revamp of the existing legislative framework for performance reporting to bring it into line with the “best practice standards” adopted by governments in other jurisdictions.
- Major changes to the internal organisational and administrative processes of each agency to ensure that:
 - there is a strong commitment from top management to excellence in reporting that is marked by a high degree of transparency and disclosure;
 - top management is closely involved in the annual reporting process that is adequately resourced;
 - an established mechanism is in place to continuously review and refine the key performance indicators;
 - a senior person is allocated with a special responsibility to co-ordinate the preparation of annual reports and other forms of communication with stakeholders; and
 - ongoing information on performance results and significant events is published on the agency’s websites and through other forms of communication.
- Treasury to introduce a government-wide framework on performance reporting and to provide more practical guidance, training and support to agencies.
- The Auditor-General to be provided with a legislative power to audit the key performance indicators published in agencies’ annual reports and also to conduct an annual assessment of the performance reporting of a selected sample of agencies.
- The Public Bodies Review Committee to expand its current practice to focus on not only agencies’ performance reporting but also their planning processes by reviewing the strategic and corporate plans.

The Committee strongly believes that the adoption of the proposed Strategy will lay the foundations for a consistent and effective performance reporting approach across the NSW Public Sector. The Strategy is also designed to provide a sign-post for the future direction in performance reporting. In addition, the Committee is confident that it will create an impetus for agencies to continuously strive for excellence in reporting as part of the organisational culture and good corporate governance.

Chairman's Foreword

Summary of Recommendations

Chapter 2: Reporting of Unforeseen Performance Outcomes – The New South Wales Approach –

Recommendation 2.1

The Annual Reporting Legislation specify that the annual report must disclose:

- (a) the charter, objectives, major strategies and operational activities of the agency;
- (b) an outline of the strategic and corporate plans;
- (c) a comprehensive set of key performance indicators that are related to the major aspects of the agency's operation and are clearly explained;
- (d) key performance indicators that are used consistently from year to year (with any changes being highlighted and explained);
- (e) the performance targets for the financial year as stated in the strategic and corporate plans, the Service and Resource Allocation Agreements, the Statements of Corporate Intent and the Budget Papers;
- (f) a comparison of the actual performance achieved during the financial year with the targets set;
- (g) adequate explanations for instances of major under and over-performance and, in the case of under-performance, also details of lessons learned and actions taken to improve services;
- (h) performance results for the last five years (i.e. trend data);
- (i) a benchmarking comparison with the performance results achieved by similar agencies in the State and in other Australian jurisdictions;
- (j) an outline of the major planned initiatives and projects for the financial year and details of the results achieved (together with explanations for any delay and the revised target date for completion);
- (k) a detailed discussion and analysis on:
 - the performance results achieved during the financial year including the linkage of the outputs to the whole-of-government desired outcomes and the extent to which the agency was wholly or partly responsible for the outcomes;

- the performance trends over the past five years; and
 - shared responsibilities for cross-agency performance issues and the agency's contribution to the outcomes.
- (l) a balanced view of the performance results with highlights of major achievements as well as significant shortcomings, setbacks and problems;
- (m) factors, events or trends that may have an influence on the agency's performance and the future and how the agency plans to deal with the issues; and
- (n) the agency's responses to reports tabled in Parliament by a Parliamentary Committee and the Auditor-General and also to issues of public interest raised by the media in relation to the activities of the agency.

Chapter 5: Reporting on Use of Budget Supplementations -

Recommendation 5.1:

- (a) An overview report be included in the Consolidated Financial Report of the NSW Total State Sector providing explanations for the use of budget supplementations by agencies during the financial year;
- (b) The overview report be presented as part of the notes to the Consolidated Financial Report so that it will be subject to audit by the Auditor-General;
- (c) The Financial Reporting Code be amended to require Budget Dependent General Government Sector Agencies to include in the annual financial statements detailed explanations for any material variance:
- between the original annual appropriation and the total amount of funding made available (including budget supplementations); and
 - between total budget funding provided and actual expenditure.

Chapter 6: Performance Reporting – The Way Forward -

Recommendation 6.1:

The Chief Executive Officer and top management of each agency demonstrate to the organisation a strong commitment to excellence in performance reporting that is marked by a high degree of transparency and disclosure.

Recommendation 6.2:

The Chief Executive Officer and the Board Members (where applicable) of an agency be closely involved in the annual report project each year to ensure:

- a performance reporting framework is agreed at the outset;
- staff members' contributions to the report are clearly specified; and
- adequate resources are provided to the process.

Recommendation 6.3:

A process be established within each agency to continuously review and refine the key performance indicators and the underlying systems that produce the data.

Recommendation 6.4:

A senior person (with direct access to senior management) be appointed within each agency to be responsible for:

- co-ordinating the preparation of annual reports and educating the relevant staff members on the report preparation process; and
- co-ordinating all other forms of communication with stakeholders during the year.

Recommendation 6.5:

That the senior person (referred to in Recommendation 6.4) collaborate closely with the strategic planners during both the planning process and the annual reporting process to ensure that:

- the key elements of the Strategic Plan and Business Plan “flow through” to the reports; and
- the issue of how performance is to be measured and reported is adequately considered at the time of the drafting of the Plans.

Recommendation 6.6:

The annual reports of agencies provide electronic links to more detailed sources of information (particularly on performance results).

Recommendation 6.7:

Agencies provide ongoing information on performance results and significant events (both favourable and unfavourable) on their websites and/or through other forms of communication.

Recommendation 6.8:

Treasury expedite the introduction of the proposed new legislation to replace the existing *Public Finance and Audit Act, Annual Reports Acts* and other associated legislation.

Recommendation 6.9:

Treasury (in conjunction with other central agencies) introduce a government-wide framework to guide the reporting of performance by agencies in their annual reports to ensure consistency of standards across the public sector.

Recommendation 6.10:

The “Annual Report Review Program” of the Treasury be maintained and properly resourced to ensure that:

- agencies’ annual reports are subject to ongoing external scrutiny; and
- agencies themselves receive regular feedback on the quality of their reports (particularly on the standard of performance reporting).

Recommendation 6.11:

More practical guidance and training be provided to agencies by the Treasury through:

- the publication of educational materials on the “best practice” approach to performance reporting; and
- the conduct of regular training seminars, workshops and discussion forums.

Recommendation 6.12:

An Annual Reporting Manual be developed and issued by Treasury to provide practical guidance on:

- how the intent of the legislative and policy requirements should be complied with;

- the “best practice” approach to performance reporting (including illustrative examples of “good” and “bad” reporting practices); and
- how the internal organisational and administrative issues can be resolved based on the experience of, and lessons learned by, other agencies.

Recommendation 6.13:

The Treasury maintain arrangements to allow ongoing liaison between annual report preparers of agencies so as to facilitate the exchange of information, experience and knowledge.

Recommendation 6.14:

A special Premier’s Award be established to recognise achievement of excellence in annual reporting within the NSW Public Sector.

Recommendation 6.15:

The Auditor-General conduct an annual assessment of the performance reporting of a selected sample of agencies to be followed by the tabling of a report in Parliament giving comments on the results of the review.

Recommendation 6.16:

The Auditor-General be provided with a legislative power to audit the appropriateness, relevance, comprehensiveness and reliability of the key performance indicators published by agencies in their annual reports.

CHAPTER 1: Introduction

1.1 *Background to the Inquiry*

Public accountability for performance outcomes is essential to the efficient and effective operation of government agencies in the New South Wales Public Sector. The annual reports of these agencies are the key communication medium by which they discharge their accountability obligations to the Parliament, the Government and the general community. In New South Wales, the annual reporting legislation requires all agencies to present to Parliament each year an annual report containing both financial and non-financial information on their operational activities and performance results.

Openness and transparency in reporting has now assumed even more importance in the light of the greater responsibilities that have been devolved to agencies over recent years. To achieve sound corporate governance, the Committee believes that the following three basic principles should be observed by all agencies:

Openness: Openness in the disclosure of information to permit effective and timely action and independent public scrutiny.

Integrity: Honesty in the preparation of an agency's annual report including the portrayal of a balanced and unbiased view of the results of operation and performance outcomes.

Accountability: Adoption of a process whereby individuals within an agency are held responsible for their actions.

The Committee's past reviews of agencies' annual reports have shown that there is a general reluctance to report on "bad news" about performance and also on the use of budget supplementations to cover funding shortfalls. The common tendency is to avoid discussing the "hard and difficult" issues faced by an agency because they may reflect adversely on its performance or are controversial in nature.

In the Committee's view credible reporting on performance has a number of clear benefits as it can:

- enhance accountability and trust in government;
- provide information to promote improved services and better parliamentary scrutiny; and
- create an incentive for agencies to actively manage for the results they have set out to achieve.

The Treasurer of New South Wales, the Hon. Michael Egan, MLC, has commented in speeches about “a lack of reporting of failures or bad news” by agencies in their annual reports.

In 1996, the following observations were made by the NSW Public Accounts Committee in its report *The Truth, the Whole Truth and Nothing but the Truth? Annual Reporting in the Public Sector*.

“Agencies are not disclosing the major problems and issues that have arisen during the reporting year. Consequently, the reports suffer from being unbalanced. They may also be perceived as merely ‘public relations’ documents”.

At the NSW Public Sector Corruption Prevention Committee Conference held in June 1997, Tony Harris, a former Auditor-General of New South Wales offered this perspective on the issue of public accountability:

“... But information is the foundation of accountability and provides the only environment in which democracy can thrive. How governments, how all public officers deal with this question of government information in the future will in great measure determine the quality of our future democracy. At the moment, I would have to say that the changing government has not well accommodated our constant ethics”.

In a number of Circulars issued to agencies over recent years the NSW Treasury has emphasised the importance of explaining in the annual reports what agencies planned to achieve; what they have in fact achieved; and what they expect to achieve in the future. The Treasury also is firmly of the view that the stakeholders of agencies have a right to be told about all the “news” relating to an agency’s performance (both good and bad). Where disappointments have occurred the Treasury believes that the stakeholders should be informed of the reasons and, more importantly, what has been done to address the problems and issues identified.

Whilst the policy intentions of the Treasury are clear, the problem is that the Treasury Circulars are only of a persuasive nature and they do not have the status of a mandatory legal requirement. In the Committee’s view, a major deficiency of the current annual reporting framework in New South Wales is that there are no explicit legislative requirements for agencies to include in their annual reports specific information on:

- performance targets set for the current year;
- achievements against the targets set (including reasons for under and over performance and details of actions taken to address performance shortfalls);
- trend data and analysis relating to past performance;
- benchmarking comparisons with the performance results of similar agencies in other Australian jurisdictions; and
- the reasons for the use of budget supplementations by Budget Dependent General Government Sector agencies to meet funding deficits.

Given the absence of a legislative imperative to do so at present, there are no real incentives for agencies to strive to be the “leaders of the pack” in terms of providing comprehensive and balanced information on performance outcomes. In fact, annual reports are perceived by some Boards of Statutory Bodies and Chief Executive Officers as more in the nature of compliance and public relations documents. As such, there is a general reluctance to openly discuss adverse performance results for fear that the reported failures may have an unfavourable effect on the reputation of the agency. The Committee’s opinion is that annual reports that present only “good news” are not credible.

The Committee’s past reviews showed that a small number of agencies (e.g. Integral Energy) did take the initiative to comprehensively report on their “achievements” as well as “non-achievements”. It was evident that the openness of disclosure in many of those cases was driven mainly by the organisations’ established culture and management philosophies rather than legal imperatives.

The Committee has noted that the Commonwealth and a number of other States (e.g. Victoria and South Australia) have adopted a far more robust and comprehensive performance reporting framework than the one currently in existence in New South Wales. The Committee is also interested to find that a number of Victorian local councils have a current practice of including in their annual reports a separate section titled “Disappointments”.

1.2 Scope of the Inquiry

In view of the Committee’s concerns regarding the reporting of performance (particularly unforeseen outcomes) and the use of budget supplementations by agencies, it was decided on 2 February 2001 to undertake an Inquiry into these matters.

There were two key elements to the Inquiry. The first element focussed on how agencies reported on performance outcomes that had not been forecasted in the Strategic and Corporate Plans. The second element was primarily concerned with how agencies reported on the use of budget supplementations. The requests for extra budget funding may be due to a budget blowout or they may be related to other reasons such as the implementation of a new government initiative.

The focus of the Inquiry was not on why adverse performance outcomes occurred or why additional budget funding was needed but rather on whether agencies had adequately accounted for them in their annual reports.

1.3 The Inquiry Process

The Terms of Reference for the Inquiry were advertised in the Sydney Morning Herald, the Australian and the Australian Financial Review newspapers on 17 February 2001.

As part of the Inquiry process, the Committee undertook:

- a detailed examination of a sample of New South Wales public sector agencies' annual reports for the 1999-2000 and 2000-2001 years (with a particular focus on performance reporting and the disclosures in relation to the use of budget supplementations);
- a review of the legislative and policy requirements in the other Australian jurisdictions in relation to the reporting of performance outcomes and the use of budget supplementations;
- a review of the public sector performance reporting frameworks established by the governments for agencies in the United States, Canada, the United Kingdom and New Zealand; and
- a review of the external reporting requirements for companies in the private sector under the *Corporations Act 2001* and the Australian Stock Exchange Listing Rules.

In obtaining further evidence the Committee also conducted a series of interviews with senior representatives from the Australian Securities and Investments Commission (ASIC), the Australian Stock Exchange (ASX) and the Australian Shareholders' Association (See Appendix 1). The interviews were primarily directed at finding out:

- the best practice approach to communication with shareholders in the private sector (commonly referred to as "investor communication");
- the measures that have been adopted by the ASIC and the ASX in regulating the reporting of performance by companies; and
- the roles of shareholder interest groups in promoting accountability in the private sector.

Detailed information was also obtained from Integral Energy in regard to the internal processes that the organisation adopts each year in producing its annual report that goes beyond the legal requirements.

1.4 Focus of the Inquiry

In conducting the Inquiry, the focus of the Committee was on:

- determining the adequacy of the New South Wales legislative framework for the reporting of performance outcomes and the use of budget supplementations;
- identifying the major deficiencies in agencies' reporting of their performance and the use of budget supplementations;
- formulating a package of legislative and policy reforms directed at enhancing agencies' accountability for performance outcomes and the use of budget supplementations;
- determining how the Treasury can provide better policy leadership, practical guidance and support to agencies in helping them to meet their statutory reporting obligations;

- developing proposals to assist agencies in revamping their internal processes for the production of annual reports and also for other forms of communication with stakeholders; and
- formulating measures to further improve the existing institutional arrangements for the scrutiny of agencies' performance reporting.

The following chapters discuss the Committee's findings on the key issues under the terms of reference.

CHAPTER 2: Reporting Of Unforeseen Performance Outcomes – The New South Wales Approach

2.1 Existing Annual Reporting Requirements

The New South Wales Public Sector annual reporting requirements are set out in the *Annual Reports (Statutory Bodies) Act*, *Annual Reports (Departments) Act* and the associated Regulations. The existing legislation was enacted in the mid 1980's. Since that time, extensive financial and resource management reforms have been implemented by successive governments particularly over the last ten years. The reforms have significantly changed the roles and functions of government agencies and also their accountability relationships with the key stakeholders.

Despite previous recommendations by the Committee up to now, the annual reporting framework still has not been updated by the Government to reflect the changes to the accountability requirements and reporting standards brought about by the recent public sector reforms. In particular the Committee is concerned that the present framework lacks a clear focus on the key issues that are relevant to a proper assessment of performance and accountability.

At present the Annual Reports (Statutory Bodies) Regulations and Annual Reports (Departments) Regulations only prescribe the following three disclosure requirements for the reporting of performance outcomes:

- Qualitative and quantitative measures and indicators of performance showing the level of efficiency and effectiveness.
- Factors that have affected the achievement of the operational objectives during the year.
- A description of the major problems and issues that have arisen.

2.2 Deficiencies of Existing Legislative Framework

The existing legislative framework for performance reporting is too general in its prescription. There are a number of major omissions when compared to best practice standards such as the absence of a specific requirement for agencies:

- to include an outline of the strategic and corporate plans in the annual report;
- to report the performance achieved against the targets set out in the plans and the budget papers; and

- to provide a discussion and analysis on the performance outcomes (including a demonstration of the linkage of the outputs to the whole-of-government desired outcomes).

As a result, the Committee has found that a large number of agencies, in particular, have chosen to interpret the Annual Reporting Legislation as not requiring the inclusion of explanations on:

- the reasons for major variances from performance plans and targets; and
- actions taken to address performance shortfalls and to improve service standards.

2.3 Major Issues of Concern in Performance Reporting

During the course of the Inquiry the Committee selected for examination a sample of fifteen agencies' annual reports for the 2000-2001 year. The focus of the review was on performance reporting and in particular on how agencies reported on what they planned to achieve and what they had in fact achieved. Details of the results of the review are set out in Chapter 3.

From the review the Committee has noted that generally agencies have made some improvement in reporting on their performance over recent years but the Committee is disappointed at the rate of progress. Four factors stand out as contributing to the current state of reporting:

- The existing legislative framework does not prescribe the key elements that are essential for effective performance reporting.
- Principles of good reporting are not clearly understood or applied by agencies.
- There is a general absence of an organisational philosophy and culture founded on the use of comprehensive performance information to monitor progress towards achievement of goals and a spirit of open accountability for outcomes.
- Performance reporting has political dimensions.
- There are few incentives for good reporting or sanctions for poor reporting.

The Committee's review has identified a number of common deficiencies in agencies' performance reporting and they are outlined below:

- Few agencies set out concrete statements of what they had planned to achieve (including planned initiatives and performance targets) and then reported back specifically against the plans and targets.
- In reporting what they had achieved agencies focussed too much on listing activities, outputs and initiatives and too little on linking them to, and reporting on, intended performance outcomes.
- The key performance indicators shown in the reports were not sufficiently comprehensive to adequately account for all the major aspects of an agency's operations. (The Committee did not know whether a more

comprehensive set of indicators did exist in the Strategic and Corporate Plans and therefore it was only a case of “selective” reporting. In some instances it was noted that a significant number of the output and outcome measures disclosed in Budget Paper No. 3 had not been incorporated in the annual reports for ex-post reporting).

- The performance information presented in the reports was also inadequate in a number of other respects in that it did not incorporate one or more of the following important elements:
 - Key performance indicators for the previous years (i.e. trend data) as well as the following year.
 - A benchmarking comparison with the performance results achieved by similar agencies in New South Wales and other Australian jurisdictions.
 - Adequate explanations for instances of under and over-performance (including details of actions taken to improve future performance in the light of the lessons learned).
 - Adequate explanations to assist readers’ interpretation and understanding of the key performance indicators.
 - Discussions and analyses on setbacks, problems and issues.
 - Agency’s responses to adverse performance outcomes reported by the Media and the Press during the year.
- Most reports did not give a balanced presentation in that the agencies reported only the “good news” and made few references to performance outcomes that did not meet expectations and how they had used the information to improve services.
- Little use of evaluation findings (e.g. results of program reviews) to demonstrate what the activities and programs were achieving and how they were contributing to performance outcomes.

2.4 Proposed Changes to Legislative Reporting Framework

One of the major problems that the Committee has found with the current approach to performance reporting in New South Wales is the inadequacy of the legislative framework. The existing reporting requirements have not been updated since the Annual Reporting Legislation was first introduced in the mid 1980’s.

As indicated earlier in this chapter the statutory provisions are quite general in nature and there are a number of major omissions when compared with “best practice” performance reporting standards. In addition, the Committee has noted that the legislative frameworks of a number of other jurisdictions are also more comprehensive than the one currently used in New South Wales (See Chapter 4).

To achieve an overall improvement in the standard of performance reporting in New South Wales the Committee believes that one of the key prerequisites is to establish a robust legislative framework that sets out clearly the policy aims of the Government in terms of the ways in which the performance of each agency

is to be accounted for. Legislative prescription also will ensure that a “disciplined” and consistent approach is applied across the public sector.

Accordingly the Committee recommends that:

Recommendation 2.1

The Annual Reporting Legislation specify that the annual report must disclose:

- (o) the charter, objectives, major strategies and operational activities of the agency;
- (p) an outline of the strategic and corporate plans;
- (q) a comprehensive set of key performance indicators that are related to the major aspects of the agency’s operation and are clearly explained;
- (r) key performance indicators that are used consistently from year to year (with any changes being highlighted and explained);
- (s) the performance targets for the financial year as stated in the strategic and corporate plans, the Service and Resource Allocation Agreements, the Statements of Corporate Intent and the Budget Papers;
- (t) a comparison of the actual performance achieved during the financial year with the targets set;
- (u) adequate explanations for instances of major under and over-performance and, in the case of under-performance, also details of lessons learned and actions taken to improve services;
- (v) performance results for the last five years (i.e. trend data);
- (w) a benchmarking comparison with the performance results achieved by similar agencies in the State and in other Australian jurisdictions;
- (x) an outline of the major planned initiatives and projects for the financial year and details of the results achieved (together with explanations for any delay and the revised target date for completion);
- (y) a detailed discussion and analysis on:
 - the performance results achieved during the financial year including the linkage of the outputs to the whole-of-government desired outcomes and the extent to which the agency was wholly or partly responsible for the outcomes;

- **the performance trends over the past five years; and**
 - **shared responsibilities for cross-agency performance issues and the agency's contribution to the outcomes.**
- (z) a balanced view of the performance results with highlights of major achievements as well as significant shortcomings, setbacks and problems;**
- (aa) factors, events or trends that may have an influence on the agency's performance and the future and how the agency plans to deal with the issues; and**
- (bb) the agency's responses to reports tabled in Parliament by a Parliamentary Committee and the Auditor-General and also to issues of public interest raised by the media in relation to the activities of the agency.**

The Committee has noted that many of the legislative prescriptions for performance reporting proposed above have already been adopted by the governments in some of the other Australia jurisdictions and major overseas countries (See Chapter 4). As each agency is required to produce strategic and corporate plans, the proposed reporting regime is intended to strengthen the current cycle of planning, program execution and reporting.

In the Committee's view, the best way to implement the above performance reporting framework is to incorporate the key requirements in the Annual Reports Acts and to prescribe the other more detailed elements by Treasurer's Directions under the Act. The recommended changes to the legislation are consistent with one of the major intents of the Government's Financial Management Framework, that is to enhance the accountability reporting of General Government Sector Agencies (e.g. departments) through improvements in the information provided in the budget papers, in agency annual reports and in *ad hoc* agency performance reports.

The Financial Management Framework is a consolidation of and advancement on, recent financial management reforms. Under the framework initiative, an integrated suite of policies, guidelines and toolkits is currently being developed to foster better value for money in program and service delivery through improvements to both resource allocation and resource management. The Committee has been informed that a revision of the States' existing financial management and annual reporting legislation will be a major component of this project.

CHAPTER 3: Review Of Agencies' Annual Reports

3.1 Introduction

During the course of the Inquiry, the Committee selected for examination a sample of fifteen agencies' annual reports for the 2000-2001 year. The focus of the review was on performance reporting and in particular on how agencies reported on what they planned to achieve and what they had in fact achieved (including explanations for under and over-performance).

In gathering evidence for the Inquiry, the Committee also undertook a review of the annual reports of four agencies for the 1999-2000 year to see specifically how performance issues that had previously been raised in the public arena were dealt with in the reports.

3.2 Examples of "Good" Reporting Practices

There are pockets of good performance reporting and a number of strengths in the present reporting regime. Among the 2000-2001 annual reports reviewed by the Committee, it was found that the reports of Integral Energy and the Environment Protection Authority both have a number of positive features. In the Committee's view, these two agencies have made a commendable effort in explaining the performance outcomes using a comprehensive set of key performance indicators.

Set out below is a brief outline of the Committee's findings on the reports of the two agencies:

Integral Energy

In relation to performance reporting, the report of Integral Energy contains a number of positive features which are exemplary within the New South Wales Public Sector. The Committee is particularly impressed with the inclusion of the following disclosures:

- A "Highlights" and a "Lowlights" Section at the beginning of the report indicating the areas where the agency did well and also those areas where further improvements are required. (Quantitative data has been included, where appropriate).
- A "Year at a Glance" table showing performance indicators and statistical data for the current and previous year.

- A “Business Scorecard for 2000-2001” covering the key result areas. The Scorecard provides details on the critical success factors, performance measures, performance targets and results, reasons for over and under performance and future actions to improve performance.
- Detailed discussions and analyses on the various significant performance issues encountered by the agency during the year e.g. reliability of supply, customer billing, customer services and lost time accidents.
- Use of graphs and tables, where appropriate, to present performance indicators.
- A “Five Year Statistical Table” reporting on efficiency and effectiveness indicators as well as financial indicators. An explanation has been provided for each of the indicators.

The Committee believes that the future reports of Integral Energy could be further improved by the inclusion of a detailed commentary on performance trends over say a five year period and also a benchmarking comparison with similar agencies in New South Wales and in other Australian jurisdictions.

Environment Protection Authority

Overall, the report is assessed as having made a good effort at explaining the outcomes of the Department’s operations during the year using a set of key performance indicators. The Department has pointed out at the beginning of the report that the document is intended to be used as a key means of communication with stakeholders and the community.

Of particular significance to the Committee is the fact that EPA is the only Department (among those reviewed) that has actually provided in the report comprehensive explanations for the performance indicators used. In explaining each of the indicators, the background context is provided followed by an interpretation of, and comments on the data.

Prior years’ comparatives for the key performance indicators are also given in the report but not the targets set for the 2000-2001 year. The trend information however should enable the readers to obtain an indication of the current year’s performance as compared to prior years. The Committee is concerned that without the information on the targets it would be difficult to assess whether the Department was successful in achieving what it planned to deliver. This is the only negative aspect of the report.

As for the performance information disclosed, there are a number of other positive features including:

- explanations for instances of under-performance in comparison with last year;

- use of graphs and charts in presenting performance data, where appropriate;
- an acknowledgement that some of the outcomes reported are not solely attributable to EPA's efforts but are the result of teamwork across a range of government, industry and community groups;
- a positive undertaking that further work will be done to develop performance indicators that are more directly reflective of the outcomes of EPA's operations; and
- provision of references to various websites and enquiry telephone numbers to assist readers in obtaining further detailed information.

3.3 Results of Review of Other Agencies' 2000-2001 Annual Reports

As part of the Inquiry process, the Committee also undertook a detailed examination of a sample of thirteen other annual reports for the 2000-2001 year. Set out below are details of the results of the reviews conducted:

N.S.W. Health Department

The NSW Health Department is the largest department in the New South Wales Public Sector with an annual budget of \$6.3 billion for the 2000-2001 year. It is a department that regularly attracts media comment in relation to its service performance.

The Committee has noted that a selection of the more significant key performance indicators is shown and discussed in the "Key Activity Results 2000-01" Section of the report which only covers two pages. A review of this Section has identified the following main issues requiring future attention:

- The set of key performance indicators reported does not appear to be sufficiently comprehensive to adequately account for the various aspects of the Department's operations. (for example, the Committee believes that at least some of the more significant outcomes measures disclosed in Budget Papers No. 3 should have been reported). A further issue is that the statistical data is not accompanied by a detailed commentary analysing and discussing the performance during the year
- Performance targets for the current year and comparatives for previous years (i.e. trend data) have not been included.
- The explanations provided for under-performance are generally inadequate. A number of instances of under-performance are referred to e.g. 64% decrease in the number of hours of restricted access to Emergency

Departments by ambulances during winter; a higher proportion of admitted patients unable to be transferred to inpatient beds within 8 hours; and a decrease in the percentage of emergency patients treated within 10 minutes. In relation to these cases, the Committee's view is that the report should have provided performance data showing trends as well as a discussion and analysis of the reasons for the under-performance together with details of actions taken to improve services.

- The report has not provided a benchmarking comparison with the performances of similar agencies in the other Australian jurisdictions.

Nearly half of the report (excluding financial statements and appendices) is devoted to "Key 2000-01 Achievements and Future Initiatives". This particular Section contains a vast amount of details on activities, projects and initiatives undertaken or completed during the year. The Committee's main concern is that the report has not clearly set out what the Department planned to achieve and it had in fact achieved in terms of performance outcomes and key initiatives.

The inadequate use of key performance indicators to publicly account for the service outcomes of the health system is again evident in the Section of the report on the Department's Corporate Plan. This Section explains what the Department planned to do to improve performance, but no key performance indicators and targets have been used to demonstrate the Department's progress in achieving the stated goals. Instead, most of the details provided are only related to planned initiatives and projects.

In the Section outlining the "Challenges During the Year", there are few references to "bad news" (i.e. setbacks and problems) encountered during the year. For example, there is no reference to the adverse press publicity on hospital waiting lists; delays in treating patients in the emergency departments; and closure of emergency departments to ambulances.

The reports on the achievements of the Metropolitan and Rural Area Health Services only provide a list of initiatives and activities completed or undertaken during the year (together with a few performance indicators). Although some performance indicators are shown in Appendix 6 for the Area Health Services, generally they are not directly related to service outcomes.

Department of Community Services

The "Overview" Section of the report on the Department's achievements in the seven Key Result Areas only contains a long list of activities, projects and initiatives commenced or completed during the year. There is no information provided on key performance indicators and targets nor data on past performance trends. Also, the report does not compare the performance of the Department with similar agencies in the other Australian jurisdictions. Without such information, the Committee's view is that a proper assessment cannot be made of the service quality and outcomes of the organisation.

An example of the inadequacy of the performance reporting approach can be found in the Section on "Client Feedback and Assistance". In this Section, no information has been included at all on the major issues identified in the 1600 or so complaints received during the year nor details of actions taken to improve services. Further, no performance targets and trend data have been disclosed in relation to complaints received. By way of explanation, the Section only contains a general statement to the effect that the client feedback is normally "analysed for the purpose of delivering a better service".

Throughout the report, there are promises of "better things to come". In reading the report, the problems and difficulties faced by the Department during the year are not apparent as there are few references to setbacks and performance shortfalls. For example, during the 2000-2001 year, there were adverse media reports about the Department's Child Abuse Helplines. The complaints were mainly related to the long delays in answering telephone calls and slowness in taking actions on incidents reported by the callers. These problems and setbacks and what the Department has done about them have not been mentioned in the report.

The overall conclusion of the Committee is that there is a considerable amount of details in the report on new initiatives and changes to the operations but little retrospective examination of and accountability for past performance.

Police Service

In the "Commissioner's Review", it is claimed that considerable achievements have been made by the Police Service since 1996. This assertion, however, is not entirely supported by the key performance indicators presented in the rest of the report. For example, the "General Satisfaction Index" was 65% for the 2000-2001 year as compared to 67% in 1996-1997. A number of other indicators (e.g. "Police Response Times to Calls" and "Numbers of Robbery and Assault" also show a downward trend in performance.

Generally, there are a number of major deficiencies with the Department's approach to performance reporting and they are indicated below:

- Only a limited number of key performance indicators are shown in the report. In fact, the Committee has noted that most of the outcome measures disclosed in Budget Paper No. 3 have not been included.
- The 2000-2001 performance targets have not been provided.
- Little or no explanations have been given for instances of under-performance in comparison with the previous year and the lack of improvement in performance since 1996 in certain areas.

- The commentary on the efforts to improve future performance basically only contains a list of general initiatives without clearly identifying the links between problems and solutions (see page 9).
- No information has been provided on benchmarking comparisons with the performances of Police Departments in the other Australian jurisdictions and with the “National Averages”. Data on “National Averages” is available and it has been included, for example, in the Victorian Police Service’s past annual reports. According to a performance audit report tabled by the Auditor-General in Parliament at the end of 2001, “all New South Wales rates of reported crimes against people in 2000 were well above the National Average”.

Another issue of concern is the lack of balance in presentation. For example, during the year, the Police Assistance Line was the subject of much adverse media publicity because of the Department’s inability to cope with the large volume of telephone calls reporting on crimes. Subsequently, an audit of the troubled helpline was undertaken but the Committee could not find any reference at all in the report to the problems and difficulties experienced by the helpline and details of actions taken to address the issues.

Corrective Services

There are a number of major shortcomings in the overall approach adopted by the Department for performance reporting. The key issues of concern which have been identified are:

- The vision, mission and objectives of the Department have not been stated in the report.
- The strategies employed to deliver the planned outcomes have not been clearly identified.
- Only a limited number of key performance indicators are disclosed (e.g. escape rates) and there is no information on the targets set for the 2000-2001 year.
- As there are no systematic comparisons between targets and actual performance, the discussions and analyses on over and under-performance are only of limited value.
- The Section “Targets for 2001-2002” only presents a long list of projects and initiatives planned for the following year. In those cases where specific improvements were planned, no quantitative targets have been identified in the report (e.g. planned increase in bed numbers at various correctional centres and planned reduction in electricity and water usage and in greenhouse gas emissions).

Ambulance Services of New South Wales

The annual report provides a comprehensive response to the recommendations of the Auditor-General's Performance Audit Report "Ambulance Service of New South Wales : Readiness to Respond" issued In March 2001. The inclusion of the Department's response is a requirement under the *Annual Reports (Departments) Act 1985*. As a result, readers should be able to gain a reasonably detailed insight into the problems and issues faced by the Department as well as actions taken to achieve improvement in service. The Performance Audit Report has identified a number of shortcomings in the organisation structure, work practices and performance (particularly response times) of the Department. On page 9 of the annual report, the Department acknowledges that "response times have not improved over recent years".

An analysis of the "2000/01 Review" Section shows that it only contains:

- caseload data for the current and previous year;
- a categorisation of the caseload for the current year; and
- "Total Activity Report", "Emergency Activity Report", "Mobilisation Time Report" and "Response Time Report" for the current year.

The abovementioned key performance indicator information is deficient in a number of respects in that they do not include:

- performance targets for the 2000-2001 year and comparatives for prior years (i.e. trend information);
- comparative performance data for similar agencies in the other Australian jurisdictions; and
- a discussion and analysis on the performance outcomes.

Without the above additional information, readers would have difficulties in undertaking a meaningful assessment of the performance of the Department. In fact, had the Department's response to the Performance Audit Report not been included, the readers would not have been aware of the performance problems faced by the Department.

The Committee is pleased to note from the report that a Performance Management Unit has now been established to improve and increase the range of performance indicators. Further, the report mentions that the Convention of Ambulance Authorities is currently working towards developing a common set of core indicators to enable a more meaningful benchmarking comparison of performance across all jurisdictions in Australia in the future.

Health Care Complaints Commission

Overall, the annual report presents a substantial amount of detailed information on achievements as well as projects, initiatives and activities undertaken during the year. A large part of the details provided, however, are not strictly concerned with performance outcomes and in the Committee's view are not essential for the purpose of accountability to the stakeholders of the Commission. In terms of the format for future reports, the Committee therefore would like to see a much less descriptive approach being adopted by significantly reducing the amount of low level details.

From the review, the Committee noted that the report has a number of positive features such as the Sections on "Satisfaction with the HCCC" and "Challenges" although the Committee believes that the information presented in both Sections could be further improved.

In relation to the reporting on performance, the Committee's major concern is that the disclosure approach adopted does not give a clear picture of what the Commission set out to achieve for the 2000-2001 year; what it did achieve during the year; and what it plans to achieve in the following year.

In short, the Committee's finding is that the emphasis of the 2000-2001 report does not provide sufficient information to the readers to enable a proper assessment of the extent of the achievement of the Commission's goals and objectives.

Apart from the above general issues, the Committee's analysis of the report also revealed the following:

- The Section on "Performance Measures" (pages 8-9) contains a large number of key performance indicators as well as details of completed projects and activities. The Committee's major concerns are outlined below:
 - The performance indicators are mainly related to the timeliness and quantities of outputs and there is limited reference to the quality and effectiveness aspect of the Commission's performance.
 - Details regarding performance targets set for the current year and comparatives for last year have not been given.
 - Some of the performance indicators are only presented in the form of percentage changes without being accompanied by actual numbers.
 - There are no explanations provided for under and over-performance or any details regarding actions taken to address performance shortfalls.
- It is not possible to properly assess whether the Commission was successful in implementing the initiatives and projects that it set out to deliver for the 2000-2001 year as the details of the plans for that year have not been provided.
- The "Achievements" Section presents a large amount of low level details regarding completed initiatives, projects and activities, some of which are of

a relatively minor nature. Much of the details included, in the Committee's view, are not essential for the assessment of the Commission's performance. Again, this Section has not provided any information on what the Commission set out to achieve for the 2000-2001 year.

- Nearly one-third of the main body of the report (about 30 pages) has been devoted to the presentation of case studies with minute details. In the Committee's opinion, it is more appropriate for such information (which is no doubt of interest to the stakeholders) to be disseminated through other communication mediums (e.g. information brochures and the Commission's website). The report is an accountability document that needs to be written in a succinct and focussed manner. What the Commission could have done is to identify in the report only the major issues highlighted by the case studies together with details of changes in policies and procedures effected as a response to those issues.
- The Section on "Satisfaction with HCCC" is useful but it is important that the key information be located at the beginning of report. Further, the Committee believes that a clear link needs to be provided between the survey results and the specific actions taken to improve services in the light of the issues identified. Information regarding the methodologies used to conduct the surveys would also be helpful. In order to provide the readers of the report with a better insight into the performance of the Commission, similar details in relation to any internal or external reviews of the Commission conducted during the year also ought to be disclosed.

State Rail Authority

The Committee has identified a number of issues with the way that the performance of the Authority was reported.

In the Section "State Rail Performance Indicators", a table is provided showing data for each of the ten years ended 30 June 2001. The Performance Indicators cover "service quality", "finance", "safety" and "people". No targets are shown in the table for the 2000-2001 year although some targets are referred to in "The Year in Review" Section. The Committee has noted that the table is not accompanied by any commentaries on the trends nor has any data been provided showing a benchmarking comparison with similar rail agencies in other Australian jurisdictions.

Another deficiency is in the analyses and explanations provided for under-performance in comparison with the targets set. During the 2000-2001 year, SRA under-performed in relation to on-time running both for City Rail and Country Link. No explanations have been given for the failure to meet the targets set for City Rail. In the case of the Country Link, only a one-sentence explanation has been provided for the significant performance shortfall. The reason given for having only 69.3% of the services arriving within 10 minutes of the timetable (as compared to the target of 90%) is "speed restrictions on the tracks".

With regard to the “on-time running” issue, the report also has not given a clear outline of the strategies adopted to address the causes for train delays nor details of the performance targets set for the following year.

In addition, the Committee has noted that the “on-time running” statistics published by SRA were questioned by the Ombudsman in 2001. Based on the Ombudsman’s own audit, it was found that only just over half of all City Rail services checked were on time as compared to SRA’s record of about 90%. The main reason for the difference is that the criterion used by the Ombudsman was arrival or departure within 60 seconds of timetable. SRA’s criterion is 3 minutes for suburban services and 5 minutes for intercity services.

National Parks and Wildlife Service

The objectives of the Department have not been stated in the report. Throughout the document, a number of key performance indicators on workloads and activity levels are shown but there are few indicators on service quality and performance outcomes.

In relation to performance reporting, the other major deficiencies noted are:

- Performance targets for the current year and trend information has not been disclosed.
- The performance results reported only cover-completed activities, projects and initiatives. For those operational areas where quantitative data is given, only the current year results are shown but there are no comparatives for the prior year.
- Generally, there are limited discussions and analyses on over and under-performance.
- The “Performance Targets 2000-2003” Section for each of the Key Result Areas is mainly made up of a list of planned projects and initiatives. In a number of instances, the Committee believes that quantitative targets could have been provided. Examples are the Department’s plans to increase the area of land outside the reserve system that is formally managed for conservation purposes; to increase the number of partnerships with local governments and other organisations and community groups; to increase the level of satisfaction of park users; and to reduce the amount of maintenance expense.

Rural Fire Service

The report does not contain any key performance indicators or targets in relation to service outcomes.

Both of the Sections titled “How Well We Did It” and “Future Goals” only provide a long list of activities, projects and initiatives. There are no comments in the report on adverse performance results.

Office of Information, Technology and Management

The key performance indicators disclosed in the report are not accompanied by targets and comparatives for prior years. As a result, the Committee believes that it would be difficult for the readers to undertake a proper assessment of the performance outcomes of the Department. Further, the Committee has noted that throughout the report, there is little, if any discussion on non-achievement of plans and performance difficulties.

Energy Australia

The vision, mission and objectives of the organisation have not been stated in the report.

The explanations provided throughout the report for instances of under-performance generally are not sufficiently comprehensive. For example, the report has highlighted one significant adverse performance outcome relating to safety results. The lost time injuries frequency rate increased 28% above last year (from 6.4 to 8.2 injuries per million hours) and above target. The commentary provided on the under-performance is mainly focussed on initiatives taken to improve safety performance but there is little information given on the reasons for the performance shortfall.

The “Results at a Glance” Section contains a number of key performance indicators for the 2000-2001 year as well as comparatives for the previous three years. However, the performance targets and budgeted figures for the current year have not been given although, according to the report, the performance of each of the four core businesses of Energy Australia is assessed by management against “commercial targets”.

For each of the key performance indicators reported in the “Results at a Glance” Section, there is a cross-reference to other parts of the report for more detailed information. Generally, the Committee has found the discussions and analyses on the performance indicators to be less than adequate. One example is the “Customer Satisfaction Index”. The report has not given any information on how the customer surveys were conducted so that the readers can make an assessment as to the reliability and validity of the results. Further, although the Index is lower than the indices for the previous two years (albeit only by a small percentage) there are no explanations given for the decline. The commentary on plans to improve the level of service is mainly related to the call centres and the new payment methods for customers with few references to the important area of delivery of electricity supply.

The financial analysis in the report (pages 40-43) is useful as it includes, among other things, the Statement of Corporate Intent targets for each of the key aggregates as well as actual results achieved.

The Committee believes that the 5-Year Statistical Information Section (page 75) could be improved by incorporating a detailed discussion and analysis on instances of under-performance.

Macquarie Generation

The report sets out a number of key performance indicators on the financial and operational aspects of the organisation together with a brief commentary on the highlights (i.e. significant variations from the previous year).

The Committee believes that the reporting structure can be further enhanced by the inclusion of:

- performance targets for the current year as well as trend data;
- a more detailed discussion and analysis on both unfavourable and favourable performance outcomes; and
- major performance targets for the following year.

In the Chief Executive Report, it is stated that "... the way that Macquarie Generation's people went about delivering and exceeding key expectations in 2001 was the highlight of a successful year". Without any information on the performance targets set for the 2000-2001 year, the Committee's view is that it would be difficult for the readers to make an informed judgement as to whether Macquarie Generation did perform beyond expectations.

Sydney Ports Corporation

The report has included an Appendix on key performance indicators showing the performance in 2000-2001 against the targets specified in the Statement of Corporate Intent as well as the actual results for the 1999-2000 year. However, the Committee has noted that no detailed explanations have been provided in the Appendix for the major variances from targets and from prior year results. There are some limited comments on a number of the indicators scattered throughout the report.

3.4 Results of Review of Agencies' 1999-2000 Annual Reports

In gathering evidence for the Inquiry, the Committee undertook an examination of the annual reports of four agencies to see specifically how performance issues that had previously been raised in the public arena were dealt with in the reports. The results of the review were mixed as indicated below:

Integral Energy

This particular agency has a specific section on “Lowlights” at the beginning of the report. The three matters set out below are mentioned in that Section:

- Uneconomic, long-term power purchase contracts contributed \$30 million in above market costs to the retail business.
- Continued losses in the retail business totalled \$55 million, largely as a result of unprofitable contestable contracts.
- Declines in business and residential customer satisfaction indices, following a rocky transition to Australia’s largest customised utility billing system, the Customer Service System (CSS).

Further explanations on the above matters are provided in the Chairman’s Report and CEO’s Report as well as in the “Review of Operations” Section. The explanations also include details of actions taken or proposed to be taken to address the issues raised by the adverse performance outcomes.

The Zoological Parks Board of NSW

The financial and cash flow difficulties experienced by the Board during the 1999-2000 year were widely reported in the press. The Auditor – General’s Independent Audit Report was qualified due to his reservations about the ability of the Board to continue its operations in the future as a going concern.

The Committee has noted that the only reference given by the Board in the report to the “bad news” is buried in the fine print in Note No. 1(a) to the Annual Financial Statements on page 55. Set out below is an extract from that note which is required by accounting standards in any case and therefore was not a voluntary disclosure by the agency.

Note 1(a) Going Concern Basis:

“The Board will experience a liquidity problem due to significant increases in costs associated with sector-wide growth in employment costs and a limited opportunity to raise revenue to cover these costs due to competitive market factors. The Board is pursuing the development of a revised government funding model in discussion with Treasury. The continued financial viability of the Board is dependent upon the approval of funds during the 2000/2001 year to enable the Board to continue to meet its financial obligations including increased employment costs.”

Apart from the above limited note disclosure, the financial difficulties of the board have not been mentioned anywhere else in the report (not even in the Chairman’s Report or the Director and CEO’s Report). The Section on “Risk Management” talks about the major risks faced by the Board in relation to

income generation and expenditure control and the process of monthly review of income and expenditure levels. Although this Section would appear to be a suitable place to provide a detailed commentary on the financial difficulties, no such information has been included.

Sydney Water

In 1998, an independent inquiry was conducted into the quality of drinking water supplied by Sydney Water following adverse publicity in the press. The Committee has noted that the annual report only contains a one-sentence reference to the inquiry (on page 16) which also talks about the implementation of the inquiry's recommendations regarding the management of Cryptosporidium and Giardia in the water supply.

In response to the adverse press coverage of the water quality problems, there is a series of "positive" statements made throughout the report (particularly in the Chairman's Report and the Managing Director's Report) about the introduction of new Drinking Water Quality Initiatives and improved management of the agency's infrastructure.

Further, there is a mention of new partnership arrangements with the Sydney Water Catchment Authority (established in July 1999) as well as the Department of Health and the Environment Protection Authority to ensure the supply of clean and safe water.

Interestingly, it is noted that the Chairman's Report emphasises (in the first two paragraphs) the importance of "communicating openly and honestly with the community and its customers". This would appear to be an oblique acknowledgement of the fact that the water quality problems should have been communicated to the consumers before they were revealed by the press.

Department of Community Services

During 1999-2000 there were a number of press reports on instances of failure in service delivery by the Department. However, there does not appear to be any commentary in the report on the problems, issues and setbacks encountered.

Instead, the whole report has been written in a highly "positive" tone referring to major achievements and a series of key reform initiatives designed to improve service delivery across all functional areas within the Department.

Initiatives explained in great detail include DOCS 2001 Transformation, Service 2000, Care 2000 and DOCS Helpline. The report also emphasises a significant improvement in the Disability Services and Child and Family Services areas. These were in fact two of the areas which had previously attracted much adverse press publicity

NSW Grains Board

In November 2000 an Administrator was appointed by the Minister of Agriculture to take over the functions of the NSW Grains Board in the light of significant financial problems.

An Inquiry subsequently conducted by the Public Accounts Committee into the collapse of the Board found that there were corporate governance, systems and procedural problems and also high risks associated with the Board's growth strategy.

In addition, an Independent Commission Against Corruption investigation revealed that the Board's financial statements for at least the 1998 and 1999 years had been manipulated to show a better financial results and position.

In reading the annual report for the 1998-1999 year, there are certainly no "tell-tale" signs that the Board was in financial and operational difficulties and that its demise was imminent. In fact, it is a glowing report about successes and achievements.

In particular, in the Finance Section of the report, the Committee has noted the following self-congratulatory statements:

"With careful management and positive marketing, the NSWGB continued to achieve solid results this year. Along with better pool returns than similar boards in other states, the Board was able to consolidate its financial position by growing its assets and reserves by \$2.5 million to \$24.6 million in 1998/99.

This is up on recent years and compares very favourably with some other grain trading organisations which are indicating operating losses in this very difficult marketing year.

This growth further enhances the NSWGB's ability to support large Pools, improved grower services and lower borrowing costs. A continuation of this growth will be necessary to establish a minimum commercially acceptable base for the substantial level of borrowings required to fund a larger turnover, given the NSWGB's annual growth rate which has averaged 32% over the last 7 years".

3.5 Performance Reporting Process – A Case Study

During the Inquiry, the Committee obtained from Integral Energy details of the internal process that it adopts each year in preparing its annual report. Not only was the 2000-2001 annual report of Integral Energy found by the Committee to be exemplary in its approach to performance reporting, the agency has in fact also won a number of Annual Reports Awards in recent years.

Integral Energy's approach to performance reporting is a demonstration of its commitment to good corporate governance practice. In the Committee's view, good corporate governance protects the rights and recognises the interests of stakeholders and ensures that timely and accurate disclosure is made of all material matters. Good corporate governance also provides an appropriate framework for board and management to pursue objectives; encourage the productive and efficient use of resources; and provide transparency and accountability in relation to the use of those resources.

The Committee's review of Integral Energy's annual report production process has identified the following significant aspects which should be of interest to other agencies:

- There is a strong commitment by top management to strive for excellence in reporting that is marked by a high degree of transparency and disclosure.
- The Chief Executive Officer and the Board Members are closely involved in the annual report project each year to ensure:
 - a performance reporting framework is agreed at the outset;
 - staff members' contributions to the report are clearly specified;
 - adequate resources are provided to the process; and
 - annual report contributors work together as a team.
- The Strategic Planners and the Annual Report Co-ordinator collaborate during both the planning process and the annual reporting process to ensure that:
 - the key elements of the Strategic Plan and Business Plan "flow through" to the reports; and
 - the issue of how performance is to be measured and reported is adequately considered at the time of the drafting of the Plans.
- There is a process established to continuously refine the key performance indicators taking into account operating experience.
- The Annual Report Co-ordinator is a senior officer with direct access to top management and also has an educational role on annual report preparation inside the organisation.
- The Instructions to the annual report contributors clearly emphasise the importance of giving a balanced presentation of performance results and the materials prepared by the contributors are required to:
 - highlight key performance measures and targets with progress report (good and bad) against each;
 - provide detailed discussion and analysis on performance/outcomes including explanations of significant variations (both positive and negative) between targets and actuals and actions taken to address performance shortfalls;
 - include a list of important events in the past year (both positive and negative);

- include graphical information, preferably over five years, to indicate performance trends over time with appropriate explanations; and
- provide forward-looking information on future outlook including issues and events that are likely to have a significant impact on the following year's performance or position.

3.6 Conclusions

The Committee's review of a large sample of agencies' annual reports has identified a number of common deficiencies in the ways that performance results and outcomes are reported. Those common deficiencies are summarised in Section 2.3 of this report and they have provided the Committee with a basis for formulating the proposed legislative changes to the existing annual reporting framework as detailed in Section 2.4.

CHAPTER 4: Reporting Of Unforeseen Performance Outcomes – Practices In Other Jurisdictions And In The Private Sector

4.1 Introduction

During the course of the Inquiry the Committee examined the performance reporting practices of public sector agencies in the other Australian jurisdictions and also in a number of major overseas countries. The aim was to undertake a comparative analysis of the New South Wales reporting practices against those of other governments in Australia and around the world. As part of the benchmarking review the Committee also undertook an examination of the statutory and other reporting requirements of large companies in the Australian private sector.

The key purpose of the extensive review was to identify specific areas that need to be further improved within the existing performance reporting framework of the New South Wales Public Sector.

4.2 Reporting Practices of Other Australian Jurisdictions

Commonwealth

In the Commonwealth, agencies' key accountability documents their Portfolio Budget Statement (PBS) supplemented by the Portfolio Additional Estimates Statement (PAES) and their Annual Report. PBS and PAES provide information on the proposed allocation of resources to Government outcomes. Annual Reports provide information on agencies' actual performance in delivering outputs and achieving Government outcomes. The PBS, PAES and Annual Reports are integrated documents that align structures for reporting of planned and actual performance. They are designed to provide Parliament and the public with a picture of agency performance.

Commonwealth agencies are required to report on how well they have contributed to achieving their outcomes during the year, including the use of effectiveness indicators as well as performance and efficiency information. The performance reporting requirements are prescribed in the Department of Prime Minister & Cabinet's guidelines on Annual Reports. The guidelines state that:

"The annual report must include:

- *A review of how the department has performed during the year in relation to the department's outputs and contribution to outcomes. Descriptions of processes and activities should be avoided. Rather,*

reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes. The review must include:

- *reporting of actual results against outcomes and outputs and the specific performance information (i.e. performance measures, indicators and targets) set out in the PBS and PAES. A tabular presentation of information, in landscape format, may be helpful. Reports should succinctly cover progress towards outcomes and the extent to which the agency is wholly or partly responsible for the outcome; and*
- *a concise narrative discussion and analysis of the detailed performance information ...” (p.5)*

The guidelines suggest that:

- “• *trend information be drawn upon where appropriate;*
- *there be reference to any significant change in the nature of the department’s principal functions or services that has occurred during the year, and has impacted on performance;*
- *there be reference to factors, events or trends influencing the department’s performance over the year and in the future and how the department plans to deal with these issues;*
- *for departments whose outputs may impact on social justice and equity outcomes in the community, there be reference to the social justice impacts. (p.6)”*

On the presentation of performance information, the guidelines have provided some further clarification:

“Evidence about ... the extent to which an outcome can be attributed to an intervention. Performance information may be quantitative (numerical) or qualitative (descriptive), however it should be verifiable. Performance measures are more precise than indicators, and are used when there is a causal link between an intervention and a measurable change in performance. (p.14)”

Agencies are required to maximise the contribution of their outputs to the specified outcomes. The guidance document on the outcomes and outputs framework states that where there are extraneous factors impinging on the capacity of the agency to contribute to the specified outcome, these should be identified in relevant documentation such as PBS and Annual Reports. The requirements of the PBS, the outcomes and outputs framework and annual reporting all encourage agencies to be candid in the way they report on their results. Experience to-date shows that the extent to which agencies comply with the spirit of the requirements varies between portfolios. The Senate Finance and Public Administration Legislation Committee’s Report on 1999-2000 Annual Reports: Report One (March 2001) has made an observation that there is an apparent trend of agencies following more private sector-style reporting practices in their annual reports:

“The ‘alignment’ of annual reports with reporting regimes adopted by non-government sectors has the potential to encourage a public relations style emphasising departmental ‘good news’ while glossing over or understating difficulties and obstacles, a trend not consistent with the true spirit of open accountability. However, the Committee was pleased to see many departments and agencies being candid about their shortcomings as well as their successes, and achieving a reasonable balance”.

In the Commonwealth, there are no specific requirements to report on unforeseen outcomes in Annual Reports in the sense of “Lowlights” or “Disappointments”, but some portfolios have decided to provide information on this basis. For example, the Department of Health and Aged Care lists in their 1999-2000 Annual Report a summary of “Major Achievements” and “Under-Achievements” for each of the portfolio’s outcomes.

Victoria

The Directions issued by the Minister for Finance under the *Financial Management Act* (1994) prescribe a comprehensive regime for performance reporting in Victoria. Under the Directions, agencies are required to include in their annual reports:

- the operational and budgetary objectives for the financial year and performance against those objectives including significant activities and achievements during the year;
- a summary of major changes or factors which have affected the achievement of the operational objectives for the year;
- a comparison of output targets specified in the State Budget with actual performance against those targets;
- a “Budget Portfolio Outcomes Statement” setting out a comparative analysis between the actual financial performance within the Portfolio and the forecasts published in Budget Paper No. 3 “Budget Estimates”; and
- a summary of significant changes in financial position during the year.

Queensland

Queensland’s principal reporting legislation is the *Financial Administration and Audit Act* (1996). The Act includes a requirement that the Government prepares a Charter of Social and Fiscal Responsibility outlining the social and fiscal objectives of the Government as well as establishing a framework for assessing the government’s performance in achieving its objectives. The Act and the

Financial Management Standards prescribe certain requirements for reporting and the minimum standards and disclosures that must be applied.

The *Financial Administration and Audit Act* sets out the principles on which the Government's Charter of Social and Fiscal Responsibility must be based. The Charter is a key document that establishes performance objectives and targets in terms of the broad outcomes that the Government is committed to deliver.

The Government prepares the State Budget according to the principles provided in the Charter. The budget is the State's financial plan for the funding of the outputs of budget dependent agencies, namely, departments. It contains specific information about the detailed objectives the Government plans to put in place to achieve its Whole-of-Government outcomes.

Under section 37B of the *Financial Administration and Audit Act*, agencies' annual reports must include such information as the appropriate Minister directs to enable that Minister to assess the efficiency, effectiveness and economy of the agency.

Apart from the annual reports, departments are required to prepare Minister Portfolio Statements (MPS) for each financial year as part of the Budget Papers. The MPS documents describe departmental outputs and demonstrate how these outputs are linked to the Whole-of-Government outcomes specified in the government's Charter. In addition, MPS documents also contain budgeted information (i.e. budgeted financial statements for each output and for the department as a whole). They also present a review of departmental achievements in output delivery.

As part of the overall reporting framework, the *Financial Administration and Audit Act* requires the Government to report regularly to the community regarding the achievement of its objectives. To meet this requirement, the Government produces an annual Priorities in Progress Report. The report focuses on outcomes and provides information to the community through a series of key performance indicators. These performance indicators highlight where the State is performing well and identify areas and opportunities for improvement. By this mechanism, the actions that the Government takes to improve areas of performance regarded as unsatisfactory are assessed in the public domain.

South Australia

In South Australia, the Department of Premier and Cabinet Circular No. 13 (May 2000) provides guidance to agencies on the preparation and content of annual reports. The Circular states that all agencies must produce an annual report containing information specified in the *Public Sector Management Act* (1995) and the *Public Finance and Audit Act* (1987). The document also indicates that annual reports are critical accountability documents from the chief executive of an agency to the responsible Minister who is required to table them in

Parliament. Therefore, the reports are not to be viewed as promotional publications but should complement the Budget Statement and Estimates and Portfolio Statements both of which are key elements of the Government's financial reporting cycle.

Specifically, Circular No. 13 states that the "focus of annual reports is on communicating the success or otherwise of agency activities in achieving government policy outcomes in the previous financial year and to document the resources used in this process". The Circular also notes that a characteristic of high quality annual reports is that they report good and bad news associated with an agency's performance.

Regulation 18 of the Public Sector Management Regulations specifies the following matters that must be included in an annual report:

- The agency's operations and initiatives (including assessment of the effectiveness and efficiency).
- The agency's strategic plans and the relationship of the plans to Government objectives.

In South Australia, the Government Management Framework provides the basis for the evaluation of the delivery of outputs by agencies. To assess performance, indicators have been developed for each output covering the quantity, quality, cost and timeliness of service delivery. An assessment of performance against these parameters is required to be published each year in agencies' annual reports, and also in the Estimates and Portfolio Statements which form part of the State's Budget Papers.

Western Australia

The annual reports of agencies are required by section 66 of the *Financial Administration and Audit Act* to provide information on performance indicators.

Treasurer's Instructions TI 904 "Performance Indicators", issued under the *Financial Administration and Audit Act* specifically directs agencies to report on performance indicators within the Report on Operations or by reproducing them in a separate segment of the annual report. In particular, TI 904 requires the disclosure of details relating to performance objectives and targets as well as actual results achieved. The information is to be accompanied by a brief explanation of the reasons for any significant variation between actual and target output production.

Tasmania

The *Financial Management and Audit Act* (1990) (section 27) requires agencies' annual reports to comment on the performance of the functions. However, there are currently no specific requirements to report on "bad news" in the annual reports.

Northern Territory

The *Public Sector Employment and Management Act* (2001) (section 28) requires the Chief Executive Officer of each agency to present a report to the appropriate Minister on the operations during the financial year. The report is to contain information about the agency's operations, initiatives and achievements, including those relating to planning, efficiency, effectiveness, performance and, where appropriate, delivery of services to the community. The *Financial Management Act* (2002) reinforces the need for agencies to provide annual reports of their operations.

The Committee has been informed that the Northern Territory Government has recently implemented a major reform initiative titled "Working for Outcomes" (WFO). WFO is a comprehensive financial and performance management framework comprising three elements – outputs, performance and accruals. As part of these reforms, a new budgeting, consolidation and reporting system (known as Apex) is being implemented. The Apex System will be able to record, collate and report on budget and actual financial information, as well as output information and performance measures.

The Northern Territory's new Fiscal Integrity and Transparency Legislation will also require greater detail on whole-of-government reporting. Initially, the Government will publish a half-yearly report on performance at a global level, with reporting of outcomes at an agency level to commence when performance measures become more refined (2003-4 or later).

4.3 Reporting Practices of Governments in Other Major Overseas Countries

As part of the review of public sector performance reporting practices, the Committee also undertook a detailed examination of the approaches adopted in the United States of America, Canada, the United Kingdom and New Zealand.

United States of America

In the USA, recent developments in performance measurement and reporting have been taking place at all levels of government, from Federal agencies and departments down through State to Local Government.

Under the *Government Performance and Results Act* (GPRA) each Federal government department and agency is required to produce strategic plans, annual performance plans and performance reports. Together, these elements are intended to provide a recurring cycle of planning, program execution and reporting. Each year the Office of Management and Budget (OMB) issues an annual guidance document which prescribes the content of these elements. The OMB is also required to produce a government-wide performance plan that is submitted as part of the Budget.

Performance plans, along with the strategic plans and annual reports and performance reports, are submitted to Congressional appropriation committees responsible for individual departmental budgets as well as the appropriate Congressional authorisation committees. The responsibility for performance target setting is divided between the agencies themselves (which initially propose their own targets), the OMB (which consults over them) and the Congress.

The GPRA system implies a type of quasi-contractual arrangement, in so far as it links the allocation of resources by the Executive/Congressional appropriations process clearly to performance targets and agencies are held accountable for their actual performance. The key aim of GPRA is to shift the focus in service delivery from processes and outputs to outcomes.

Even though GPRA was passed in 1993, the Committee has been informed that the implementation process has been slow. The first set of performance reports for the 1999 fiscal year was published in March 2000. Both the performance plans and reports are subject to scrutiny by the Congress.

As part of the scrutiny process of the draft performance plans, the General Accounting Office (GAO) undertakes an audit of each individual plan and issues an overall commentary and analysis on the quality and validity of the plans. The analysis focuses on whether or not the plans for measuring performance reflect the agencies' strategic plans; whether they made an improvement over previous years' plans; and whether there can be confidence in the performance information that will result. The GAO also comments on individual performance reports produced by agencies.

According to GAO analysis, measurement of cross-cutting (or cross-agency) performance is improving but a great deal remains to be done. In most cases agencies have addressed, in their GPRA performance plans, the problem of identifying cross-cutting performance issues and shared responsibilities and have begun to adopt strategies to improve reporting.

Canada

The Canadian Government has significantly reformed the Budget Estimates process over the past few years. Departmental Performance Reports and Reports on Plans and Priorities are required to be produced by agencies and presented to Parliament each year.

The Committee has been informed that both the Treasury Board Secretariat and the Office of the Auditor-General have taken a strong interest in improving agencies' performance reports to Parliament and, in particular, the reporting of performance outcomes that fail to meet expectations. Members of Parliament and the Office of the Auditor-General have, on a number of occasions, been critical of departmental performance reports as only providing "good news stories".

There have been a number of recent developments in Canada that will have an impact on how Parliamentarians review Departmental Performance Reports and other related documents. First, in response to a request from the Public Accounts Standing Committee, the Office of the Auditor-General will be conducting reviews of selected Departmental Performance Reports and publishing the results each year. Secondly Parliament has created a new Government Operations and Estimates Committee to oversee public spending and focus on accountability. This new Committee will be looking closely at Estimates documents, including Reports on Plans and Priorities and Departmental Performance Reports.

The Treasury Board Secretariat has taken the view that the Departmental Performance Reports and the Reports on Plans and Priorities should be the primary instruments of accountability to Parliament. Therefore the Secretariat believes that those reports need to provide the Parliamentarians with reliable, balanced information about what the government is achieving with the resources entrusted to it. The reports are also seen as important in helping to engage parliamentarians and Canadians in a constructive dialogue about the future directions of the government.

The policy of the Treasury Board Secretariat is that each agency should present to Parliament a coherent and effective picture of its performance, without being constrained by overly prescriptive reporting requirements. However at the same time, Departmental Performance Reports must meet certain principles for effective public performance reporting.

In 2001, the Secretariat introduced the following six principles to be met by all agencies when preparing their performance reports:

- Provide a coherent and balanced picture of performance that is brief and to the point.
- Focus on outcomes, not outputs.
- Associate performance with earlier commitments, and explain any changes
- Set performance in context.
- Link resources to outcomes.
- Explain why the public can have confidence in the methodology and data used to substantiate performance.

Under the six principles the performance reports are required to focus on strategic outcomes indicating a clear link to the Report on Plans and Priorities. It is the fundamental role of agencies to provide leadership and strive for the planned outcomes. Also, implicit in the principles is the public's right to review, from time to time, the effectiveness of an agency's leadership in working towards strategic outcomes.

The "Guide to Preparing the 2002 Departmental Performance Report" issued by the Treasury Board Secretariat contains a number of pertinent commentaries on the presentation of a balanced and honest picture of performance and some of those are set out below:

“Perfect performance is rarely achieved or expected. A report that implies perfection loses credibility in the eyes of the readers. Emerging or new issues cannot be dealt with instantaneously, except on exceedingly rare or urgent occasions. Some pressing issues may have high public visibility, be controversial, or be seen by a department as encouraging a negative, unfair or biased assessment of its performance. The natural tendency is to avoid full reporting on those issues and to concentrate on areas where performance is stronger or perceived as more positive”.

“... the report is an opportunity to explain difficulties and demonstrate how the department is dealing with complex, thorny problems in a responsible manner. Readiness to acknowledge performance that did not meet expectations shows an ability to adapt. It is an indicator of organisational health and a predictor of ultimate effectiveness”.

“... do not dwell only on good news. Performance reports are not meant to be marketing tools. Attention should be given to choices and circumstances that are altering plans, performance or practices”.

“In some cases, planned results will have changed because of emerging pressures, external factors or new responsibilities. Explaining these changes will make a performance report understandable and credible as readers may wish to compare the report with previous plans to determine the fate of promised outcomes. If these are not easily identified, readers may conclude that the outcomes have not been accomplished and that the report focuses only on good news”.

“Continuous learning is critical to effective management. It is about using performance information to learn what has worked and what hasn't to adjust plans and improve performance. ... Such information helps build readers' confidence in your department's ongoing capacity to deliver outcomes. Further, you demonstrate sound management by explaining adjustments and actions taken based on lessons learned”.

“Discussing risks and their impact on outcomes helps provide for more balanced reporting. It will give readers a better appreciation of the challenges faced by the organisation and a better understanding of why things may not have gone exactly as planned. A straightforward discussion of risks and challenges encourages more realistic expectations. Your report is an opportunity to explain and demonstrate how risks may have affected the organisation's performance and how they were managed”.

The Secretariat has also set out the following six principles to be met by departments and agencies when preparing their Reports on Plans and Priorities covering a three year period.

- Focus on benefits/results for Canadians.
- Identify plans and priorities that will be used to deliver the benefits/results to Canadians.
- Draw on lessons learned from previous experiences and explain any changes to the plans and priorities.
- Identify challenges and risks and explain the rationale for the choices made.
- Identify total planned spending by strategic outcome and allocate resources to departmental priorities.
- Provide a basis for assessing performance.

Under one of the six principles, agencies are expected to report on significant changes or adjustments to the plans in the light of lessons learned from past performance assessments. The "Guide to the Preparation of the 2002-2003 Report on Plans and Priorities" has highlighted the following key points in relation to difficult issues which may not produce favourable results:

"Pressing issues, or issues that are controversial, always make an organisational feel vulnerable. The natural tendency is to avoid addressing them and to concentrate on clear-cut, easily monitored priorities that will produce favourable results. Nevertheless, your report is an opportunity to explain and demonstrate how the organisation plans to deal responsibly with complex problems. By acknowledging problems, risks and the rationale for the choices made, the report shows an ability to adapt and lends credibility to an organisation's management skills".

United Kingdom

In the United Kingdom agencies are required to develop and publicly report on specific, measurable service standards as part of the public sector reforms. At the local government level (which in the United Kingdom runs a vast range of public services including hospitals, schools and police), a regime of detailed, published performance indicators has been instituted, with compilation being oversighted by the Audit Commission. In the United Kingdom, the Audit Commission audits local authorities and the health service, whilst the National Audit Office audits central government bodies.

Government departments and agencies are required to execute a Public Service Agreement which in essence is a strategic plan which guides the operations for the next three years. The Agreement sets out the aims of the organisation, the supporting objectives and related performance targets which underlie the resources allocated to it. In addition, there is a new requirement for departments and agencies to develop a Service Delivery Agreement specifying how the performance targets will be achieved and how they plan to modernise and reform government to help deliver the targets. The targets cover both financial and non-financial performance and are focussed on the desired outcomes of the Government.

Each year, departments and agencies are required to include in their annual reports to Parliament details of actual performance against the targets specified

in the Public Service Agreements together with other supplementary performance information. The reports must also explain the reasons for any significant variation between performance achieved and the targets set.

The Treasury monitors the actual performance of departments and agencies against the Public Service Agreement targets and provides quarterly reports to the Ministerial Committee on Public Services and Public Expenditure. The Committee itself also periodically examines the progress that individual departments and agencies have made towards achieving their targets.

New Zealand

In New Zealand individual departments and Crown Entities are responsible for publishing their performance results. Departments have to publish a Statement of Service Performance in the Annual Reports against the Estimates and their Departmental Forecast Reports.

Departments are made accountable for their performance through the performance contracting and reporting system between Ministers and Chief Executives. Departments and Ministers both are called to account by Parliament through Estimates Examinations (ex ante) and Financial Reviews (ex post) conducted by Select Committees, as well as general Ministerial accountability through Parliamentary debate in the House.

The focus of the New Zealand reforms of 1989 was on the strategic purchasing of outputs by Ministers from their Departments (including policy advice outputs). The overall objective of the reforms was to improve the economy, efficiency and effectiveness (at least as far as outputs are concerned) of public agencies. Despite the focus on outputs, the 1989 reforms also required that the Estimates (budget) must contain some information about the outcomes to be achieved and the links between the outputs being purchased and their contribution to the planned outcomes.

In 1994, the government refined the outputs system by adopting "strategic result areas" (SRAs) which covered a three year period (1994-97) and SRAs were also promulgated for the period 1997-2000. These SRAs covered whole policy areas, regardless of organisational boundaries and provided a potential coordinating mechanism for departments' activities. Departments themselves were encouraged to develop their own "key results areas" (KRAs) that were to be incorporated (and still are) into the performance agreements between Ministers and Chief Executives. In 1998, SRAs were superseded by "strategic priorities and overarching goals" (SPOGs). Although specific reporting against "cross-cutting" targets has been experimented with, most reporting at present is still restricted to within departmental boundaries and their outputs.

The Audit Office is responsible for auditing the performance information disclosed in annual reports. Specifically, the Auditor-General is required to express an opinion on the "fairness of service performance reporting" and on the disclosure of "specific additional matters in relation to the organisation's

performance based on the assessment of the particular risks in the organisation.”

4.4 Private Sector Reporting Practices

Large companies in the private sector are subject to a comprehensive reporting regime under the Corporations Act 2001 and also the Australian Stock Exchange (ASX) Listing Rules in the case of those companies that are listed on the ASX. The present reporting regime has two key components : Periodic Disclosure and Continuous Disclosure.

4.4.1 Periodic Disclosure

Periodic disclosure encompasses annual and half-yearly reports. Under section 292(1) of the *Corporations Act*, all “disclosing entities”, public companies, large proprietary companies and registered schemes must prepare a financial report and a directors’ report for each financial year. The financial report, directors’ report and auditor’s report are to be lodged with the Australian Securities and Investments Commission (ASIC) and, subject to certain exceptions, sent to the shareholders. In the case of a public company, the financial report, directors’ report and auditor’s report must be laid before the company’s annual general meeting.

In addition, an entity which is a “disclosing entity” must prepare a half-yearly report and directors’ report for each half-year under section 320 of the *Corporations Act*. The half-yearly financial report are to be audited or reviewed and an auditor’s report obtained. The half-yearly financial report, directors’ report and auditor’s report are required to be lodged with the ASIC but do not need to be sent to the shareholders or laid before a meeting of shareholders.

The term “disclosing entity” is defined in section 111AC of the *Corporations Act* and, subject to certain exceptions, includes an entity whose securities are quoted on the ASX.

The ASX Listing Rules has set out other periodic reporting requirements for listed entities. In particular, Listing Rule 4.1 requires entities (other than a mining exploration entities) to lodge a half-yearly report with the ASX in a prescribed form. In addition, these entities must also lodge with the ASX a Preliminary Final Report within 75 days after the end of the financial year.

4.4.2 Continuous Disclosure

The continuous disclosure provisions for listed entities are contained in sections 674-678 of the *Corporations Act*. The purpose of the provisions is to safeguard investors by providing them with all material information (both positive and negative) regarding the securities of a listed entity in a timely manner. The provisions are also seen as important for the orderly operation and integrity of the securities markets. Any information that would have a material influence on

the value of an entity's securities or investment decisions regarding the entity's securities must be disclosed.

The continuous disclosure provisions require a listed entity to notify the ASX of information about specified events or matters as they arise so that the ASX can make that information available to the market. A listed entity that fails to notify the ASX of information that is not generally available and that a reasonable person would expect, if it were generally available, to have a material effect on the price or value of the securities of the entity, may be guilty of an offence.

A similar notification requirement is prescribed in ASX Listing Rule 3.1. Listing Rule 3.1 requires that a listed entity, on becoming aware of any information that a reasonable person would expect to have a material effect on the price or value of the entity's securities (quoted or unquoted), must immediately advise the ASX of that information. The effect may be of either a quantitative or qualitative nature.

Compliance with ASX Listing Rules is mandatory under the *Corporations Act*. The Act provides for civil and criminal sanctions in the event that the Listing Rules are breached.

To assist compliance with the continuous disclosure obligations, the ASX has issued a Guidance Note (No. 8) titled "Continuous Disclosure : Listing rule 3.1". The Guidance Note suggests that:

- companies appoint a person with the appropriate degree of seniority to be responsible for communication with the ASX in relation to its obligations under the Listing Rules, including Listing Rule 3.1. (This is actually a compulsory obligation under Listing Rule 12.6);
- as minimum best practice, all relevant announcements and other information (including analysts' briefings) be included on a company's website and also disseminated through other forms of communication (e.g. press releases and fax stream/email to media outlets and shareholders);
- companies establish internal policies and procedures to ensure compliance with continuous disclosure obligations;
- companies develop procedures for responding to rumours and speculation in the media and other forms; and
- companies make a statement if speculation becomes reasonably specific or the market moves in a way that appears to be referable to the speculation.

The Committee has noted that, in recent years, the private sector has witnessed considerable improvements in the availability of information to the investing public. This has been partly due to advances in technology and partly as a result of the regulatory initiatives of both the ASIC and the ASX. Examples of greater use of technology include maintenance of a website on which to publish company information and also the adoption of web-casting and other means of electronic communications.

4.4.3 Current State of Play

Although there is a stringent reporting regime in place in terms of communication with investors and the public, the Committee has been informed that the private sector is not without its own problems. Some of the key reporting issues faced by the corporate regulators were summed up by the Deputy Chairman of the ASIC, Ms Jillian Segal at the 18th Annual Company Secretaries' Conference "Mapping the Future" held at Surfers Paradise on 19 November 2001.

"My view is we are still fighting the war on disclosure. I believe the problem is that prompt disclosure is not an integral part of our corporate culture. Many companies seek to avoid disclosure unless they receive legal advice that it is absolutely required. Some of the reasons for non-compliance we have come across in the past are:

- *Delaying releasing the bad news until they had some good news to "balance" it with.*
- *Delaying reporting a failure to meet a vital product development approval because they continued to accept management assurances that the technical difficulties were just about to be solved.*
- *Delaying disclosure because, having had concerns with the CEO making statements in the past, they required board sign off on the ASX announcements but did not establish a process for dealing with them between quarterly meetings of the board".*

At the Conference, the Deputy Chairman of the ASIC also gave an outline of the strategies employed by the Commission in seeking to improve the overall standard of reporting in the private sector:

"To improve disclosure, we need to appreciate that unless investors have confidence in the integrity of the market, we will have difficulties in attracting and maintaining investor support for our markets. We need to address the underlying attitudes towards disclosure, and above all, we need a commitment from all market participants towards changing those attitudes and developing a culture of voluntary disclosure and compliance, supported by effective regulatory sanctions against those who offend.

ASIC has worked hard over the last 18 months to improve disclosure practices and promote investor confidence. Some examples include:

- *The "Heard it on the Grapevine" discussion paper and resulting better disclosure principles (released in August 2000), which suggest principles that companies should follow to ensure equal investor access to information and to promote better communication between listed companies and investors.*
- *A number of industry bodies have also recently published similar guides following the release of our principles. The Australasian Investor*

Relations Association (AIRA), for example, recently released its “Best Practice Guidelines for Communication between Listed Entities and the Investment Community” (2 August 2001), which are designed to enhance communication standards, assist compliance and improve the equality of access to information.

- *As one of the first stages in our focussed work in this area, from February to July 2000, the ASIC and the ASX ran a two-stage joint campaign in relation to the disclosure practices of listed technology companies, after which we released a list of “Top 10 Tips” for investors in dot coms. During this campaign, ASIC conducted surveillance visits of 20 listed high tech companies throughout Australia. As a result, 10 companies released additional information to the ASX either after being advised ASIC would visit them or after the visit had taken place”.*

In the light of a number of high profile cases of company collapses and audit failures in recent years in Australia, the Commonwealth Government has responded by releasing a comprehensive set of 41 policy proposals on audit regulation and the wider corporate disclosure framework. The latest stage of the Corporate Law and Economic Reform Program, known as CLERP9, is heralded to propose a “fundamental reshaping of the financial reporting framework”.

The following two proposals are of particular interest to the Committee and, indeed, have relevance for the public sector (see Chapters 2 and 6):

- Listed companies be required to publicly respond to externally generated speculation.
- Shareholders to be given the option of receiving their annual reports electronically.

4.4.4 Private Sector “Watchdogs”

In the private sector, apart from the ASIC and the ASX, there are a number of other “watchdog” bodies acting in the interest of investors. One such body is the Australian Shareholders’ Association (ASA) The Committee has been informed that currently the ASA has a range of strategies in place to scrutinise the performance of public companies and also to provide a valid voice for their shareholders.

An example is each year the Association publishes a “shame list” of worst performing companies. The “shame list” compares a company’s performance with that of its industry peers. In 2001, there were 70 companies on the list.

The ASA normally writes to the companies on the “shame list” requesting an explanation for the poor performance (including why it was unforeseen) as well as details of what has been done to fix the problems. This is then followed by attendance at the annual general meetings where instead of the “silent faces at the top table” each director would be asked to justify his or her role on the board. The Association has also taken advantage of a *Corporations Act* provision to

Report on Accountability for Unforeseen Performance Outcomes and Use of Budget Supplementations

require the companies concerned to send the Association's criticisms out to the shareholders together with their annual reports before the annual general meetings.

The key objective of the ASA's strategies is directed at exerting external pressures on the directors and management of companies to lift their game.

4.4.5 Conclusions

In most of the other Australian jurisdictions, the legislation or policy directions clearly specify that the accountability framework for agency performance is to be composed of the strategic and corporate plans, the budget papers and the annual reports. In addition, there is an explicit requirement to report actual results achieved against the key performance targets shown in the plans and budget papers (with a particular emphasis on outcomes).

The Queensland Government, for example, also regularly publishes performance reports at the whole-of-government level using key performance indicators to highlight where the State is performing well and identify areas for improvement.

Some of the other jurisdictions' annual reporting requirements actually prescribe the inclusion of trend data, a discussion and analysis on performance and reasons for any significant variation between planned and actual performance (together with details of action taken to address performance shortfalls).

The Committee has noted that a common problem which still exists across all jurisdictions is the tendency for agencies to adopt a public relations or promotional approach in preparing their annual reports with the result that the emphasis is often slanted towards the presentation of "good" news.

The Committee's review of government performance reporting practices in other major countries identified a number of interesting trends. The countries examined were the United States, Canada, the United Kingdom and New Zealand. In each of these countries, there is a requirement (legislative or policy) to produce strategic plans, performance plans and annual reports as part of the accountability cycle. All these documents are subject to scrutiny by the Parliament or Congress. Ex-post performance reporting is required to be linked to the targets set out in the plans.

The Committee has also found that a number of institutional arrangements have been established in the other major countries to enhance the quality of performance reporting. In the United States, the Government Accounting Office audits both the performance plans and performance reports of agencies. In the case of Canada and New Zealand, the performance information published by agencies is reviewed/audited by the Audit Office.

In the case of performance target setting, the Committee is interested to note the specific arrangements in the United States and the United Kingdom. In the

United States, the responsibility is shared between agencies, the Office of Management and Budget and the relevant Committees in the Congress. The proposed targets are initially set by the agencies but they are subject to external independent reviews. The key performance indicators of the local government bodies in the United Kingdom are developed with the oversight of the Audit Commission.

In the private sector the whole approach to performance reporting is underpinned by a number of major features that are not found within the public sector generally. Those features relate not only to the forms of reporting but also to regulatory enforcement and external scrutiny. In summary, the Committee has noted that listed companies in the private sector:

- are subject to more frequent reporting during the year than public sector agencies;
- tend to make more extensive use of technology to communicate with their shareholders (e.g. websites and other electronic means);
- are required by ASX Listing Rules to establish appropriate in-house arrangements for communication with investors (including the appointment of an investor relations person); and
- are subject to more stringent regulatory oversight by the ASIC and ASX as well as regular scrutiny by other industry “watchdog” bodies acting in the interest of shareholders (e.g. the Australian Shareholders’ Association).

The Committee is of the view that many of the features found in the performance reporting frameworks of governments in other Australian jurisdictions and overseas countries as well as in the private sector are worthy of consideration by the Government for adoption within the New South Wales Public Sector.

CHAPTER 5: Reporting On Use Of Budget Supplementations

5.1 Introduction

Budget Dependent General Government Sector Agencies are allocated a specific sum of money each year to fund their operations under the Annual Appropriation Act as part of the State Budget process. After the enactment of the Annual Appropriation Bill, the Government may draw additional money out of the Consolidated Fund using different mechanisms (without prior Parliamentary approval) to fund expenditures not anticipated at the time of the State Budget.

The focus of the Inquiry was not so much on why the additional funding requests were made by agencies and whether they were justified. Rather, the Committee was more concerned to establish whether the subsequent reporting on the use of budget supplementations, both at the agency and whole-of-government level, was adequate in terms of the explanations provided for the extra funding required. The Committee firmly believes that it is important for the budget supplementations to be subject to the same degree of accountability and Parliamentary scrutiny as the original annual appropriations (albeit on an ex-post basis).

As part of the review of the current reporting practices in New South Wales, the Committee also undertook an examination of the ways in which the use of budget supplementations is reported in the other Australian jurisdictions.

5.2 Budget Appropriation Process

The existing New South Wales Legislation dealing with the respective roles of Parliament and the Executive Government in the appropriation process stem in part from the *Constitution Act* (1902), but more substantially from the *Public Finance and Audit Act* (1983) and the Appropriation Act(s). The annual Budget represents the authorisation of expenditures from the Consolidated Fund.

The main provisions of the *Public Finance and Audit Act* relating to Parliamentary appropriation and control are:

- Section 21 – this section provides that money can only be drawn from the Consolidated Fund under the authority of an Act (e.g. an Appropriation Act) or in accordance with the applicable authority.
- Section 21A – this section provides that a provision of an Act which establishes a so-called “special appropriation” (i.e. a permanent charge against the Consolidated Fund not requiring annual appropriation) will only

have effect if the annual Appropriation Act does not appropriate a sufficient amount.

- Section 22 – this section provides that under “exigent” circumstances, the Treasurer can authorise the payment of amounts out of the Consolidated Fund in excess of any appropriation with details of such payments to be included in the following year’s Appropriation Bill.
- Section 24 – this section allows the movement of funds (subject to the Treasurer’s approval) where functions are transferred between agencies after the annual Appropriation Act has been passed.
- Section 26 – this section allows the Treasurer to amend the receipts and payments estimates of the State and individual appropriations, where the amount of a Commonwealth specific purpose payment is changed from that assumed at the time the Budget was presented to Parliament. This section is only used where the amount provided by the Commonwealth is in excess of that provided by the Budget.

The annual Appropriation Acts also contain provisions relating to appropriation controls. The Appropriation Acts identify the amounts shown in the Acts as being appropriated to individual Ministers and the agencies within their portfolios. After the enactment of the Annual Appropriation Bill, the Government can seek further funding for expenditures not provided for in the original Budget by presenting additional Appropriation Bills to Parliament during the course of the financial year.

Apart from the formal appropriation process, the Government does have some degree of flexibility in managing the use to which Consolidated Fund moneys are put. This flexibility can be seen in two forms – the ability to transfer funds between agencies (i.e. on a “zero sum” basis); and the ability to incur expenditure in excess of appropriations regardless of offsetting savings.

The flexibility provisions in the annual Appropriation Acts normally provide that:

“... the Treasurer may authorise the payment of a sum in excess of the amount shown as the Consolidated Fund Recurrent Services estimate for an agency, but only on the condition that an equivalent sum is not paid out of the estimate of the Consolidated Fund Recurrent Services for another agency”

The Appropriation Acts normally also contain a similar authority in respect of capital appropriations.

Under the Appropriation Act, the Treasurer can delegate this authority to others. In practice, over recent years, the Treasurer has delegated to Ministers (and, if they so request, to their Chief Executive Officers) the authority to “transfer funds” after the enactment of the Appropriation Bill. Such “transfers” do not result in a change to the total Budget estimates (i.e. appropriations).

At present, there are two mechanisms whereby the Government can draw money out of the Consolidated Fund in excess of specific appropriations.

A specific amount (known as “Advance to the Treasurer”) is allocated within the Appropriation Act each year to be used by the Treasurer in meeting costs relating to recurrent services not allowed for in the appropriations. This is a recognition by the Parliament that the Executive Government may require some additional money to meet unforeseen funding needs arising following the passing of the Budget. Section 22 of the *Public Finance and Audit Act* gives a wide ranging power to the Treasurer to meet expenditures in excess of the amounts contained in the Budget. The Section provides that –

“Notwithstanding section 21, where ... the exigencies of Government so require, the Treasurer may, with the approval of the Governor, determine that there shall be paid from the Consolidated Fund, in anticipation of appropriation by Parliament, such additional sums as may be necessary in the public interest to provide for expenditure of a recurrent nature or for capital works and services”

(The Concise Macquarie Dictionary defines “exigent” as meaning “requiring immediate action or aid; urgent; pressing”).

The essential difference between Section 22 and the Treasurer’s Advance is that the former is unlimited in amount but limited in purpose while the latter is limited in amount but unlimited in purpose. It would appear that Section 22 is designed to allow the Government to operate when faced with an emergency while the Treasurer’s Advance is designed to cover a possible range of smaller or non-urgent funding needs during the course of the year.

5.3 Reporting on Use of Budget Supplementations

Budget Dependent General Government Sector Agencies are required to prepare their annual financial statements in conformity with the Financial Reporting Code issued by the Treasurer under the *Public Finance and Audit Act*. A particular provision of the Code specifies that agencies must include a “Summary of Compliance with Financial Directives” in the financial statements which form part of the annual report. The Summary is required to set out details of:

- the original annual appropriations and subsequent appropriations as well as other forms of budget supplementation provided during the year;
- the actual expenditures against the different forms of appropriation and supplementation; and
- any material variance between total budget funding available and actual expenditure (including reasons for the variance).

See Appendix 2 for examples of “Summaries of Compliance with Financial Directives” prepared by agencies. The Summary is also a specific requirement

of Australian Accounting Standard AAS29 “Financial Reporting by Government Departments”

At the whole-of-government level, the use of budget supplementations is reported through different mediums. Details of additional funding provided from the “Advance to the Treasurer” and under Section 22 of the *Public Finance and Audit Act* are provided in the subsequent Appropriation (Budget Variations) Bills presented to Parliament during the year. Those Bills also contain details of expenditure requiring additional appropriation by Parliament out of the Consolidated Fund after the enactment of the original Annual Appropriation Bill.

Under Section 24 of the *Public Finance and Audit Act*, any movement of funds between agencies as a result of administrative changes (i.e. the transfer of functions between agencies) can only occur with the determination of the Treasurer. In addition, the details of all such determinations are required to be tabled in Parliament.

There is a similar tabling requirement in relation to the details of all amendments to the Commonwealth Specific Purpose Payments that are in excess of the amounts that have previously been included in the State Budget.

Appendix 3 contains examples of documents tabled in Parliament by the Treasurer setting out details of budget supplementations provided from the “Advance to the Treasurer” and under Sections 22, 24 and 26 of the *Public Finance and Audit Act*.

The Committee has found that the common reasons for the use of budget supplementations are:

- new policy initiatives, projects and activities;
- unforeseen cost increases e.g. unanticipated increase in demand for services and increases in expenses such as award increases in salaries and wages;
- non-realisation of planned savings;
- revenue shortfalls; and
- unforeseen capital projects and purchases.

A review of a sample of the “Summaries of Compliance with Financial Directives” for the 1999-2000 and 2000-2001 years prepared by agencies showed that none of the Summaries had provided any explanations for the use of budget supplementations. For example, the Department of Health received a total supplementation of \$146 million during 1999-2000 but the annual report did not indicate what that extra funding was used for.

The current unsatisfactory state of reporting by agencies on the use of budget supplementations can be attributed to a deficiency in the Financial Reporting Code. The Code only requires an explanation to be provided for a material variance between total budget funding available and actual expenditure but not between the original appropriation and the final amount of budget funding

approved (including supplementations). The Committee believes that explanations for both types of variances are essential if the use of funding resources by agencies is to be properly accounted for.

From the sample of "Summaries of Compliance with Financial Directives" reviewed, the Committee has also noted that in some instances there was a reasonably material variance between the original Annual Appropriation and the actual expenditure but the reasons for the variance had not been provided. These instances can be found, for example, in the 1999-2000 Summaries of the Police Service, the Corrective Services and the Department of Community Services and also in the 2000-2001 Summary of the Department of Public Works and Services. The failure to provide explanations in the annual financial statements is a breach of the requirements of the Financial Reporting Code and accounting standards.

The Committee was concerned to find that most of the explanations for the use of budget supplementations provided in the subsequent appropriation bills are not adequate. Often, the explanations are cryptic and only take the form of a few words. As a result, the Committee is of the view that it would be difficult for members of Parliament and other stakeholders to effectively assess whether the additional funding used was justified. Set out below are examples of some of the explanations provided:

Treasurer's Advance/Section
22 Payments/Additional Appropriations
2001-2002

<u>Department</u>	<u>Amount</u> \$	<u>Explanations Provided</u>
Premier's Department	5,250,000	Community solutions and crime prevention fund
Ministry for the Arts	1,553,000	Assistance package to the Museum of Contemporary Art
Department of Agriculture	4,800,000	Safe food production
NSW Fire Brigades	19,526,000	Shortfall in operational funding
Department of Community Services	2,852,000	Asset upgrading projects
Department of Education and Training	23,462,000	Internet tender and other initiatives to improve education outcomes

NSW Police Service	7,700,000	Assistance to police and community youth clubs
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5.4 Budget Controls – Net Cost of Services

Although the focus of the Inquiry was on the use of cash budget supplementations provided to agencies out of the Consolidated Fund, the Committee is aware that the Government has also adopted another budget control measure based on “Net Cost of Services” (NCS). This control measure has been introduced as a result of the widening of the scope of management of the State’s finances to cover not only cash consolidated fund allocations but also accrual based budget results.

NCS is an accrual measure (broadly equal to expenses less retained revenues) and it provides a Budget target at the agency level that is determined on a basis which is consistent with the fiscal targets under the accrual presentation of the State’s Budget.

The main features of the NCS framework are:

- Agencies are given a NCS limit for both the Budget year (which is subject to a tolerance limit) and Forward Estimates years.
- Variations to agency NCS limits over a Budget cycle can only be made with the approval of the Treasurer and/or Budget Committee. Such variations would normally relate to maintenance of programs and enhancements. Some minor variations and the impact of savings can be approved within Treasury under delegation from the Treasurer.
- Control of Consolidated Fund cash allocations is seen as a funding issue and is dealt with separately from the approval to incur additional expenses.

5.5 Reporting Practices in Other Australian Jurisdictions

Commonwealth

In the Commonwealth, there are two main methods of adjusting a department or agency’s appropriations during the year. These are the Advance to the Finance Minister (AFM) and the additional estimates process. The annual reports are required to provide information on the expenditure of appropriations as shown in the Portfolio Budget Statements (at Budget-time) and the Portfolio Additional Estimates Statements (in November) as well as other changes due to the application of the AFM.

The Portfolio Additional Estimates Statement inform Members of Parliament and the public of increases to the appropriation as published in the Portfolio Budget Statements.

The AFM is a provision authorised by the annual Appropriation Acts and made available to the Finance Minister as a central contingency fund to provide urgent funding to agencies throughout the year. The AFM can be used if the Finance Minister is satisfied that:

- there is an urgent need for expenditure (for expenses, acquisition of assets or payment of liabilities) that is not provided for, or insufficiently provided for, in the authorised appropriations; and
- the additional expenditure is not provided for, or is insufficiently provided for, in the authorised appropriations:
 - because of an erroneous omission or understatement; or
 - because the additional expenditure was unforeseen until after the last day on which it was practicable to provide for it in the Appropriation Bills before those Bills were introduced into the House of Representatives.

Funds issued from the AFM after Additional Estimates are finalised are generally recouped from specific appropriations made later in the year e.g. from Appropriation Acts (Nos. 3 & 4). However, if the issue from the AFM takes place after the introduction of the last Additional Appropriation Bill for the year, the issue remains as a final charge against the AFM. In this case, the Minister for Finance and Administration is required to table in Parliament a report entitled "Issues from the Advance to Finance Minister as a Final Charge". The report discloses amounts issued from the AFM that remained as a final charge to the AFM as at 30 June and related expenditure as at 30 June. Also, monthly statements of issues from the AFM are tabled in Parliament together with copies of all approved agency applications.

Victoria

Under the *Financial Management Act* departments are required to include in the annual financial statements a "Summary of Compliance with Annual Parliamentary Appropriations". The Summary is to indicate the various parliamentary appropriations available for use by a department (including disclosure of any supplementary funding made available), together with the amounts actually applied against these authorities. In addition, the Summary is required to provide explanations for any material variance between total parliamentary authority and appropriations applied.

Queensland

In Queensland, the supplementation mechanism is referred to as unforeseen expenditure. The *Financial Administration and Audit Act* provides that the Governor in Council, on the recommendation of the Treasurer, may authorise expenditure in advance of appropriation. Subsequently, the Treasurer must prepare a "Statement of Unforeseen Expenditure to be Approved" which is audited by the Auditor-General.

This Statement provides information on the total amount of approved unforeseen expenditure provided to each department which is further broken down by the portion to be applied to its outputs or provided as an equity adjustment. The Statement forms part of the second Budget Appropriation Bill and is, in effect, an amendment to departmental appropriations for the relevant financial year.

The Act requires all supplementations provided to a department to be reported at the end of each financial year in the Treasurer's Appropriation Statement. This Statement, which is to be tabled in Parliament, details the appropriation made at budget time, unforeseen expenditure and the amount of any lapsed appropriation. Ministers must be able to provide to Parliament a full account of the rationale for the additional cost of their outputs and/or the need for increased equity contributions.

Western Australia

Budget supplementations are authorised under section 5(1)(a) of the *Treasurer's Advance Authorisation Act* (TAA Act) which provides authority for the Treasurer to make advances from the Public Bank Account for expenditure of an extraordinary or unforeseen nature. The *Treasurer's Advance Authorisation Act* is enacted annually and specifies a maximum amount that can be advanced under its authority. Section 28 "Expenditure in Advance of Appropriation" of the *Financial Administration and Audit Act* operates in conjunction with the *Treasurer's Advance Authorisation Act* and it identifies two kinds of supplementary funding. The first pertains to where no appropriation has been made in the financial year and the agency is seeking funding for a new initiative and the second pertains to additional funding for an existing appropriation. Funding for new initiatives requires Executive Council approval whilst supplementary funding only needs to be approved by the Treasurer.

Treasurer's Instructions 945 "Explanatory Statement" requires agencies to include an Explanatory Statement in the annual report providing details of:

- each authorisation approved in accordance with Section 28 of the *Financial Administration and Audit Act*, including:
 - reasons advanced by the department when seeking approval;
 - the amount and any terms and conditions; and
 - actual expenditure made under the approval; and
- Reasons for and details of each significant variation between actuals and budget for classes of revenue and expense for the reporting year.

Apart from reporting by individual agencies, budget supplementations are also reported on at the whole-of-government level in the Treasurer's Annual Statements. The Annual Statements are prepared, audited and tabled in both Houses of Parliament as required by the *Finance Administration and Audit Act*.

South Australia

Under Section 12 of the *Public Finance and Audit Act*, the Governor may, in any financial year, appropriate from the Consolidated Fund “to the public purposes of the State”, an amount not exceeding the prescribed maximum. This particular funding mechanism is intended to be used to meet extra funding requirements that cannot await the passage of an Appropriation Bill. The prescribed maximum at present is 3% of the total of the amounts set out in the annual Appropriation Acts of the previous year.

There is no legislative or policy requirement for agencies to explain the reasons for the need to request extra funding by way of supplementation. However, agencies may elect to include this information in their annual reports.

The Government does not report on the use of budget supplementations by agencies on a whole-of-government basis. The Committee, however, has been informed that the details of the supplementations are provided in Statement K of the Auditor-General’s Report.

Tasmania

On the use of budget supplementations, the Treasurer’s Instructions require agencies to explain in their annual reports any significant variations between the original and adjusted appropriations for the financial year, including reference to the relevant approval process for any over expenditure.

Further, any additional funding provided from the Treasurer’s Reserve to supplement an agency’s original allocation is required to be detailed in the Treasurer’s Annual Financial Statements. Details of the additional funding are also identified in the June Quarter Statement of the Consolidated Fund. Both of these documents are tabled in Parliament.

Northern Territory

Under the current budgeting framework, budget supplementations are provided in the form of Treasurer’s Advance. Details of the over expenditure are to be reported by agencies in their annual reports. Supplementation is provided for unforeseen expenditure, generally of a one-off nature such as large termination and redundancy payments.

5.6 Proposed Changes to Reporting Practices

At present, the requirement for New South Wales agencies to report on the use of Parliamentary appropriations in the annual financial statements is set out in the Financial Reporting Code. As explained earlier in Section 5.3, the provisions in the Code are deficient in that they do not require the disclosure of explanations for any material variance between the original annual appropriation and the final amount of funding made available (including budget

supplementations). The Committee has been informed that this specific disclosure requirement (which goes beyond the requirements of the accounting standards) has been adopted in a number of other Australian jurisdictions (e.g. Commonwealth, Western Australia and Tasmania).

At the whole-of-government level, the use of budget supplementations is reported progressively during the year through the subsequent appropriation bills or by the tabling of documents in Parliament. The Committee can see a problem with this approach as an aggregate picture is not presented covering all the supplementations provided to agencies for the whole financial year.

The Committee has found that a number of other Australian jurisdictions have adopted a regime whereby detailed reporting by individual agencies is complemented by an overview reporting at the whole-of-government level covering all agencies for the full financial year. Those jurisdictions include Queensland, Western Australia and Tasmania. In the Committee's opinion, the Consolidated Financial Report of the NSW Total State Sector produced by the New South Wales Treasury would be a suitable medium for the global reporting. The Financial Report is published after the end of each financial year and it covers the financial activities of all agencies within the NSW Public Sector.

Further, the Committee is of the view that the budget supplementations information should be disclosed as a note to the Financial Report rather than as supplementary information outside the scope of the Report. This will ensure that the information will be subject to audit review by the Auditor-General.

Accordingly, the Committee recommends that:

Recommendation 5.1:

- (d) An overview report be included in the Consolidated Financial Report of the NSW Total State Sector providing explanations for the use of budget supplementations by agencies during the financial year;**
- (e) The overview report be presented as part of the notes to the Consolidated Financial Report so that it will be subject to audit by the Auditor-General;**
- (f) The Financial Reporting Code be amended to require Budget Dependent General Government Sector Agencies to include in the annual financial statements detailed explanations for any material variance:**
 - between the original annual appropriation and the total amount of funding made available (including budget supplementations); and**
 - between total budget funding provided and actual expenditure.**

CHAPTER 6: Performance Reporting – The Way Forward

6.1 Introduction

The Committee's Inquiry into performance reporting within the NSW Public Sector has identified a number of major legislative, policy, organisational and institutional issues which have impeded the production of a good report by a majority of agencies. The Committee's concerns about the inadequacies of the existing legislative framework for performance reporting are detailed in Chapter 2. That Chapter also sets out a number of proposed legislative amendments directed at revamping and strengthening the existing reporting framework.

To assist agencies in moving to the "best practice" position over time, the Committee has developed a comprehensive Strategy with four key elements covering:

- changes to the internal organisational and administrative arrangements of agencies;
- the role of the Treasury in providing policy leadership, practical guidance and support to agencies;
- the role of the Auditor-General in undertaking external assessment and validation of the performance information published by agencies; and
- the role of the Parliament in scrutinising the strategic/business plans and annual reports of agencies.

6.2 Change Process for Agencies

The Inquiry has led the Committee to the conclusion that, apart from having a robust legislative framework, a strong culture of openness and transparency is an essential prerequisite for agencies to produce a good performance report. Moreover, senior management needs to own, support and promote the reporting process. As discussed in Chapter 2, apart from some exceptions, the Committee's view is that agencies' reporting generally is driven more by legislative imperatives than a genuine desire to be transparent and be held accountable.

Accordingly, the Committee recommends that:

Recommendation 6.1:

The Chief Executive Officer and top management of each agency demonstrate to the organisation a strong commitment to excellence in

performance reporting that is marked by a high degree of transparency and disclosure.

Recommendation 6.2:

The Chief Executive Officer and the Board Members (where applicable) of an agency be closely involved in the annual report project each year to ensure:

- **a performance reporting framework is agreed at the outset;**
- **staff members' contributions to the report are clearly specified; and**
- **adequate resources are provided to the process.**

From the past reviews of agencies' annual reports, the Committee has noted the following common deficiencies with the key performance indicators disclosed:

- Indicators not sufficiently comprehensive to cover all major aspects of the operations
- Indicators tend to focus on workload and efficiency with inadequate emphasis on outcomes and effectiveness
- Indicators not relevant to the task of measuring performance.

If the performance reports are to be credible, the indicators need to be appropriate, relevant and reliable and the underlying systems that generate the data must also be robust.

Accordingly, the Committee recommends that:

Recommendation 6.3:

A process be established within each agency to continuously review and refine the key performance indicators and the underlying systems that produce the data.

In the private sector, the Australian Stock Exchange Listing Rules have recently introduced a new provision requiring all listed companies to appoint a person

(commonly referred to "investor relations manager") to be responsible for co-ordinating all notifications to the ASX as well as communication with investors generally. This person is also required to educate relevant members of the organisation on issues relating to investor communication. This ASX initiative recognises the importance of having an established process in place to co-ordinate all forms of communication with investors throughout the year.

The Committee can see considerable benefit in public sector agencies adopting a similar approach their communication with the wide range of stakeholders. Accordingly, the Committee recommends that:

Recommendation 6.4:

A senior person (with direct access to senior management) be appointed within each agency to be responsible for:

- **co-ordinating the preparation of annual reports and educating the relevant staff members on the report preparation process; and**
- **co-ordinating all other forms of communication with stakeholders during the year.**

Recommendation 6.5:

That the senior person (referred to in Recommendation 6.4) collaborate closely with the strategic planners during both the planning process and the annual reporting process to ensure that:

- **the key elements of the Strategic Plan and Business Plan “flow through” to the reports; and**
- **the issue of how performance is to be measured and reported is adequately considered at the time of the drafting of the Plans.**

One of the common weaknesses of the annual reports produced by agencies is that often they contain far too much low-level details which may be of interest to some stakeholders but are not of relevance to the general body of readers. In other words, the reports try to be “all things to all people”.

The Committee acknowledges that there are difficulties inherent in trying to be both complete and concise in preparing annual reports. In the Committee’s view, this problem can be overcome by providing electronic links to more detailed sources of information.

The annual report should be viewed as a high-level summary that gives information on the most important aspects of performance and also steers interested readers toward more detailed follow-up information. The adoption of this approach will ensure that the needs of various audiences for differing levels of information are met. The Committee believes that the twin objectives of transparency and completeness can be achieved by noting that information exists and providing the relevant link. The “electronic footnotes” can offer extensive information without breaking the flow of the performance story.

Accordingly, the Committee recommends that:

Recommendation 6.6:

The annual reports of agencies provide electronic links to more detailed sources of information (particularly on performance results).

Listed companies in the private sector are required, under the ASX continuous disclosure regime to keep the market informed as soon as they become aware

of any significant event that may have an impact on share price. In addition, the Committee has been informed that some companies also regularly provide an update on their performance results on the websites instead of waiting until the lodgement of the financial statements.

The Committee can see no reason why agencies in the public sector should not also adopt a similar continuous disclosure regime providing stakeholders with ongoing information about performance results and significant events (both favourable and unfavourable). The information can be provided on agencies' websites and/or through other forms of communication (e.g. press releases, web-casting etc.).

Accordingly, the Committee recommends that:

Recommendation 6.7:

Agencies provide ongoing information on performance results and significant events (both favourable and unfavourable) on their websites and/or through other forms of communication.

6.3 Role of Treasury

The Committee is concerned to note that the new legislation replacing the existing *Public Finance and Audit Act, Annual Reports Act* and other associated legislation still has not been progressed by Treasury despite a long delay and repeated recommendations by the Committee and also by the Public Accounts Committee over recent years. The Committee would urge the Government to consider implementing the proposed legislative amendments indicated in Chapter 2 as soon as possible and ahead of the comprehensive legislative review if there is likely to be any further delay with the project.

A lot of groundwork has been done in New South Wales in moving towards improved performance accountability through the use of key performance indicators. Recent initiatives include:-

- Service and Resource Allocation Agreements between Treasury and budget funded agencies, with statements of government policy as it relates to agency activities, agency objectives and performance indicators;
- Statements of Financial Performance and Statements of Corporate Intent agreed between Government Business and Treasury;
- Service Efforts and Accomplishments reporting, an initiative of the NSW Council on the Cost and Quality of Government which provides performance information in major policy areas such as Health, Transport and Justice; and
- The Council of Australian Governments' National Benchmarking project which enables comparison of efficiency and effectiveness in the provision of government services across the Commonwealth, States and Territories.

At present agencies have a wide array of performance information available for inclusion in the annual reports. However, what individual agencies report, and

how they measure what they choose to report, varies across the NSW Public Sector. Although there are efforts towards establishing a Government-wide approach, no overall guiding principles and framework have yet been introduced to ensure consistency in the types of key performance indicators reported by agencies and in the methods used to produce the information. The Committee firmly believes that it is crucial for such a framework to be developed by Treasury (in conjunction with other central agencies) as a matter of high priority.

The Treasury has a practice of conducting an “Annual Reports Review Program” each year under which a small sample of agencies’ annual reports are examined mainly to review compliance with the legislative requirements. Written comments on the reports reviewed are provided to the affected agencies. A Treasury Circular is usually issued after the review drawing agencies’ attention to the common deficiencies noted as well as giving examples of “good” reporting practices. The Committee believes that the Review Program has achieved a useful purpose in terms of providing practical guidance and support to agencies and therefore more resources ought to be allocated to it than is presently the case.

Apart from the Review Program it is the Committee’s view that Treasury should also conduct regular training seminars and workshops for agencies particularly on performance reporting. This can be done in partnership with the Audit Office and the Institute of Public Administration. In addition, an annual Discussion Forum on Annual Reporting would be helpful in addressing common issues identified by agencies. These initiatives should be complemented by other ongoing liaison and peer support arrangements to be co-ordinated by Treasury. An example of such arrangements is the establishment of a special website at Treasury to allow agencies to share knowledge, experience and information with each other.

The Committee can see considerable benefits in developing an Annual Reporting Manual (with a special focus on performance reporting) for use by all agencies. The Manual should contain:

- a consolidation of all annual reporting requirements;
- a detailed explanation of the legislative and policy intent of those requirements;
- a guide to “Best Practice Performance Reporting” accompanied by a checklist for self-assessment by agencies;
- illustrative examples of “good” and “bad” reporting practices; and
- suggested solutions to the common organisational and administrative problems faced by annual report preparers.

The Manual should be placed on the Treasury website to be regularly updated with input from agencies. The Manual should be viewed as a “living” document thus ensuring that the corporate memories and wisdom of annual reporting are shared across the public sector.

A view has been put to the Committee by a number of agencies that at present, there is no formal mechanism within the NSW Public Sector to recognise and reward achievement of excellence in annual reporting. Such a mechanism is considered important in order to provide the necessary incentives to achieve continuous improvement in this area.

It is noted that the Premier presents awards each year to agencies for major achievements in different areas of public sector administration. The “Premier’s Public Sector Awards” scheme has been in existence since 1997. The Awards recognise three levels of achievement (gold, silver and bronze) in six categories.

The Committee believes that Treasury should pursue the matter with a view to adding a further category on annual reporting to the current awards. The Award winners are expected to showcase their achievements by, for example, participating in seminars and contributing educational materials to relevant public sector publications.

Accordingly, the Committee recommends that:

Recommendation 6.8:

Treasury expedite the introduction of the proposed new legislation to replace the existing *Public Finance and Audit Act, Annual Reports Acts* and other associated legislation.

Recommendation 6.9:

Treasury (in conjunction with other central agencies) introduce a government-wide framework to guide the reporting of performance by agencies in their annual reports to ensure consistency of standards across the public sector.

Recommendation 6.10:

The “Annual Report Review Program” of the Treasury be maintained and properly resourced to ensure that:

- **agencies’ annual reports are subject to ongoing external scrutiny; and**
- **agencies themselves receive regular feedback on the quality of their reports (particularly on the standard of performance reporting).**

Recommendation 6.11:

More practical guidance and training be provided to agencies by the Treasury through:

- **the publication of educational materials on the “best practice” approach to performance reporting; and**

- the conduct of regular training seminars, workshops and discussion forums.

Recommendation 6.12:

An Annual Reporting Manual be developed and issued by Treasury to provide practical guidance on:

- how the intent of the legislative and policy requirements should be complied with;
- the “best practice” approach to performance reporting (including illustrative examples of “good” and “bad” reporting practices); and
- how the internal organisational and administrative issues can be resolved based on the experience of, and lessons learned by, other agencies.

Recommendation 6.13:

The Treasury maintain arrangements to allow ongoing liaison between annual report preparers of agencies so as to facilitate the exchange of information, experience and knowledge.

Recommendation 6.14:

A special Premier’s Award be established to recognise achievement of excellence in annual reporting within the NSW Public Sector.

6.4 Role of Audit Office

In November 2000, the Audit Office tabled a report in Parliament presenting the findings of an audit on the performance information published in the annual reports of eight agencies. This was the first time such an audit was undertaken. The purpose of the audit was to determine if readers could judge the operational performance (efficiency and effectiveness) of an agency from the information published in the annual report. The audit report also included a better practice guide to assist agencies in preparing performance information that meets the needs of readers.

To increase external scrutiny, the Committee believes that the Audit Office should conduct annually an assessment of the performance reporting of a selected sample of agencies. This should be followed by the tabling of an audit report in Parliament providing comments (both favourable and unfavourable) on the reports reviewed. Such an audit will complement the “Annual Reports Review Program” of the Treasury.

At present, the performance information published by agencies in the annual reports is not subject to any independent assessment and validation. Past reviews of annual reports by the Audit Office found that some performance indicators were wrong; some were misleading; some were in conflict with other

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indicators; some seemed not relevant to the task of assessing performance; and some were changed from year to year – perhaps to improve reporting. The end result was that the readers of those reports could have been misled and misdirected as they endeavoured to analyse the performance results and outcomes of agencies.

The annual financial statements of agencies are required to be subject to a rigorous process of independent review under the *Public Finance and Audit Act* and the Committee's view is that it is anomalous that performance information goes unvalidated. The Committee has been informed that the Auditors-General of Victoria, Western Australia, Tasmania and the Australian Capital Territory have all been given a legislative power to audit the key performance indicators published by agencies.

In the United States, the Government Accounting Office (the equivalent of the Audit Office) provides public comments on the individual performance reports produced by agencies. The Canadian Office of the Auditor-General conducts reviews of selected Departmental Performance Reports and publishes the results each year. In New Zealand the Audit Office is responsible for auditing the performance information disclosed in agencies' annual reports. It seems clear to the Committee that there is an increasing trend, not only in Australia, but also among other major countries, for key performance indicators to be audited.

Accordingly, the Committee recommends that:

Recommendation 6.15:

The Auditor-General conduct an annual assessment of the performance reporting of a selected sample of agencies to be followed by the tabling of a report in Parliament giving comments on the results of the review.

Recommendation 6.16:

The Auditor-General be provided with a legislative power to audit the appropriateness, relevance, comprehensiveness and reliability of the key performance indicators published by agencies in their annual reports.

6.5 Role of Parliament

From the review of the arrangements for Parliamentary scrutiny of agencies' performance reporting in the other jurisdictions, the Committee has identified a number of situations where the nature and extent of examination are more extensive than New South Wales.

In Victoria, the Public Accounts and Estimates Committee has, since the year 2000, adopted a new approach to the review of the budget outcomes of individual Departments. This is aimed at making the Government more

accountability for the financial and performance results. The key questions asked by the Committee of all Departments are:

- What were the major areas where the Department did not achieve its objectives, goals and targets in the last financial year for each output group?
- What were the reasons for the non-achievement in each instance and what remedial action did the Department take?
- What was the actual expenditure for the Department, on an output group basis, compared to budgeted expenditure and what was the explanation for any variances?

Agencies' responses to the above and other related questions are included in a report that is tabled in Parliament. Departments' corporate and business plans and annual reports are used in the review process.

In addition, the Committee also has a practice of reviewing Departments' budget estimates before they are submitted to Parliament for approval each year. Departments' planning documents (i.e. corporate and business plans) are scrutinised during the Inquiry and results of the review are incorporated in the Report on Budget Estimates.

In the United States, Federal government agencies are required to submit their strategic and performance plans, annual reports and performance reports to Congressional appropriation committees for review. In Canada, the newly created Government Operations and Estimates Committee has the responsibility of examining Estimates documents including Reports on Plans and Priorities and Departmental Performance Reports. There is a similar institutional arrangement in the United Kingdom where the Committee on Public Services and Public Expenditure periodically examines the progress of individual Departments in achieving their performance targets.

In the case of New South Wales, the Committee's current practice is to review a sample of agencies' annual reports each year and a Committee report is then tabled in Parliament. In the past, the Committee has conducted occasional hearings as part of the review process.

The Committee plans to expand its current practice in the future to focus not only on agencies' performance reporting but also their planning processes by reviewing the strategic and corporate plans. To increase the degree of external scrutiny, more hearings will be conducted to solicit further detailed explanations from agencies on their performance outcomes (in addition to what has already been disclosed in the annual reports).

6.6 Conclusions

Some of the Recommendations set out in this Chapter have previously be advanced in one of the Committee's earlier reports dealing with performance

reporting (“Towards Better Performance Reporting – Findings of an Annual Reporting Workshop Pilot Project” – November 2000). The Committee has decided to reiterate the Recommendations again as they form an integral part of the overall Strategy proposed by the Committee in this Chapter.

The Committee firmly believes that the adoption of the proposed Strategy will lay the foundations for a consistent and effective performance reporting approach across the NSW Public Sector. The Strategy is also designed to provide a signpost for the future direction in performance reporting. In addition, the Committee is confident that it will create an impetus for agencies to continuously strive for excellence in reporting as part of the organisational culture and good corporate governance.

LIST OF APPENDICES

- Appendix 1** ***-Questions for Meetings with the Australian Securities and Investments Commission, the Australian Stock Exchange and the Australian Shareholders' Association.***
- Appendix 2** ***Examples of "Summaries of Compliance with Financial Directives" presented by Agencies in the Annual Financial Statements***
- Appendix 3** ***Examples of Documents Tabled in Parliament by the Treasurer on the Use of Budget Supplementations by Agencies***